CURRENCY OR MONEY;

13.

ITS

NATURE AND USES,

AND THE EFFECTS OF THE

CIRCULATION OF BANK-NOTES FOR CURRENCY.

BY

A MERCHANT OF BOSTON.

BOSTON:
LITTLE, BROWN AND COMPANY.
1855.

CAMBRIDGE:
ALLEN AND FARNHAM, PRINTERS.

PREFACE.

A CLEAR and complete comprehension of the nature and uses of currency or money is of the greatest importance to persons in every class of life; yet there are few subjects with regard to which the general knowledge is so inaccurate and confused. Many of those who are engaged in trading and money transactions as their regular business, consider it in vain for them to attempt to understand it. But the difficulties, that give it this appearance of being abstruse and complicated, arise from the false and unsound opinions and practices prevailing with regard to it, many of which are encouraged by those whose interests are promoted by them.

The subject of the currency has also been unfortunately connected with party politics, and this circumstance has been fatal to a calm and intelligent examination of it. But changes in the condition of the country have rendered unnecessary what has been by some deemed, in former years, to be essential or expedient in financial legislation; and the great political parties, considering it now to be only a business question, the subject can be examined and

discussed without fear of awakening the slumbering prejudices of politicians, though there may still be considerable differences of opinion with regard to it.

When the resources of the country were exhausted by the protracted and expensive war of the Revolution, it was impossible to possess a currency of real money; and great credit is due to the genius that established, at such a time, the system of paper currency that obtained universal credit. Nor should those services and exertions be undervalued, which restored and preserved at par, as compared with specie, the paper currency that had depreciated in most parts of the country during the war of 1812. But the condition of the country has greatly changed since those periods. The United States, without any national debt of importance, and with its immense exports, is now better able to possess a sound currency of real money than any other nation. The precious metals exist within the country in abundance for that purpose. All that is necessary to retain them for use as money is to prohibit the circulation of the notes issued by the banks. The coin of the country would then circulate, as currency, to benefit the industry and property of the community, instead of being forced abroad, as it is now, to the great injury of the labor and wealth of the whole country.

As a merchant seeking to promote his own interest, or, as a director of a bank seeking to promote the interest of the stockholders, one would naturally consider banks mostly with reference to those objects, without looking beyond the laws which authorize the establishment of them, and the character of their business. But as a member of the legislature considering the interests of the public, I have been

impressed with the evil effects and the injury to the community arising from the excessive use of bank-notes for currency. Believing that, so far as the public was concerned, no benefits are derived from their use, I have advocated the principle of restricting the power of the banks to issue notes for circulation. They should be required to deposit security for the notes they issue, — and the circulation of all bank-notes of very small denominations should be restrained.

The personal attacks heretofore made upon me in the discussion of the subject have not diminished my confidence in the correctness of my opinions. The eagerness with which my views were combatted suggested to me that they may be even more important than I had supposed, and thus I have been induced to examine the subject with more care. The results of that investigation will be found in the following pages. It has been my aim to apply, in the plainest manner, the history of the past and the experience of the present to the subject.

I desire to disclaim the production of any new or original doctrines. Those which I advocate may be found in the writings of philosophic economists and in the public legislative reports and debates of distinguished statesmen and practical merchants and men of business. They are most especially to be found in the actual experience and conversations of those most engaged in dealings in exchanges and currency and credit and coin and bank-notes, — men who usually have neither time nor disposition to publish their experiences, — men indeed whose profit and fortune are more concerned in quiet industry and in concealing their wisdom on banking and currency than in effecting

any legislative action which might lessen speculation and protect the community.

What I have written has been intended not for the skilful and initiated alone, but to be easily comprehended. Some doctrines and illustrations have been repeated when they have seemed to bear directly upon the different kinds of currency, or of the same currency under different circumstances. Some passages may seem too plain and elementary, being merely axioms of financial practice. But avoiding any undue expansion of a subject, upon which useful and learned volumes have been and may be written, I have only sought to be readily understood, and in the briefest manner, precisely and unmistakably, to develop my own opinions. These opinions have not been hastily formed. I believe them to be founded in truth. Whatever errors of argument may be found, the conclusions are surely on the safe side. They advocate the increased stability of the currency. They uphold both the employment of the labor and the diffusion of the wealth of the country, the two conditions of our true prosperity.

S. H.

BOSTON, MARCH, 1855.

CURRENCY OR MONEY.

What is Currency or Money.

In treating the subject of currency or money, it may be well first to consider of what the present currency or money of civilized countries actually consists.

Gold and silver have been recognized for many ages, by the general consent of mankind, as the standard of value; and it is more important now to investigate their uses and effects as money, than to advocate or deny their fitness for that purpose. They are the only universally recognized standard, by which to measure the value of all other articles; and they constitute the only *real money* of commercial nations.

Real money measures the value of all other objects, because it is in itself comparatively of an unvarying value. The gold and silver, of which it consists, are obtained with much difficulty and labor, and the annual supply of them, in a series of years, has usually been only about sufficient to balance their waste and their uses for other purposes than money. The quantity of the precious metals throughout the

world has not often been increased or diminished to any great extent, and, as the purposes for which they are used do not suddenly vary, their value has been more uniform and regular than the value of other articles. The price of these metals is not altogether exempted from variation; but the changes to which it is liable are generally slow and gradual.

Gold and silver can easily be divided and again reunited without being diminished in value. Each one or any number of the smallest pieces always possess the same relative value, according to weight, as the same quantity possesses when united in one mass. Moreover, these metals have an intrinsic value, independent of their use for money; because they are less subject to decay or rust than other metals, and because of their utility in the arts and sciences, and for purposes of luxury and ornament. These circumstances have rendered them a more suitable material by which to measure the values of all objects, of which the supply and demand is subject to greater changes.

While money continues invariable and unchanging in quantity and value, it continues to be a true measure of the value of all other things; and the rise and fall in the price of other commodities is the consequence of a variation in their supply, or in the demand for them, and consequently in their value. If an article of trade is increased in quantity, or becomes more plentiful, more of it is given than before for the same quantity of money. On the other hand, if the quantity of an article is decreased, if it becomes less plentiful, less of it is given than before for the same quantity of money; because,

while the articles of trade vary in quantity and value, the money remains unchanged in these respects.

If, however, by any means, the quantity of money circulating in any country be suddenly increased or diminished, that of itself will cause a rise or fall in the prices of other commodities. If the quantity of money is increased, a rise will occur in the prices of all other articles. If a decrease in the quantity of money occurs, all other articles will fall in price. To the public this will appear to be a general cheapness or dearness of all commodities, for which they cannot account. Suppose, for instance, that by the discovery of very productive mines, the quantity of the precious metals in any country is suddenly increased. As they are obtained with less labor and trouble than before, and have become more plentiful, those who possess them will more easily and more readily part with them in exchange for other articles. In this way, a general advance in prices is commenced, which will extend to all articles. It is, however, only a greater cheapness of the money, and not a greater dearness of the commodities. The articles measured by it *seem* to cost more. That is, one receives for the same weight of gold and silver, a smaller quantity of any article than before. If the quantity of money should be suddenly lessened from any cause, the reverse of this would occur. Money being less plentiful, and requiring more labor and trouble to obtain it, becomes of greater value. Those who possess it are less ready to part with it in exchange for other articles, and require larger quantities of other articles for a given quantity of the precious metals. This is the beginning of a general decline of prices. But

this decline, like the advance of prices, is only an apparent change in the value of articles of sale. It is, in fact, the greater scarcity and dearness of money. The things that are measured by it seem to cost less; that is, one receives a larger quantity of any article for the same weight of gold and silver than they did before.

If the rise of the price of any article, wheat for example, is a consequence of its increased scarcity as compared with the demand for it, the quantity that can be purchased for a given sum of money is diminished, whilst the quantity of other articles that can be purchased for that sum of money remains the same. The sum of money being the same, it is evident that wheat has risen in value as compared with other articles. But, if a similar rise in the prices of all other articles has occurred at the same time, and the quantities of them that can be purchased for that sum of money have diminished in the same proportion, it is evident that the rise in the price of wheat is not in consequence of its increased scarcity; and that there is no change in its value as compared with other articles except money. The change is in the *price* and not in the *value* of the wheat. It is a decline in the value of money.

The average for a series of years of the price of wheat has been considered by financial writers as the best criterion of the value of the currency of a country, because the cultivation of wheat is spread over a large surface, and the quantity of it produced is of such magnitude, and the use of it so general, that its value cannot be materially affected, except by the seasons. For no combination can affect the value of all com-

modities at the same time; nor can the value of so abundant an article as wheat be controlled for a long series of years. Its value may fluctuate from season to season, depending on the condition and extent of the crops; but taking the average of a series of years, the quantity and value, as compared with the demand for it, must be about the same, unless there has been some great improvement in the mode of production; which certainly has not yet been the case with regard to wheat and most other articles of food. These are and have been, for the most part, the result of simple manual labor. Therefore, any long continued change in the price of wheat for which the seasons would not account, has always been ascribed to an alteration in the value of money.

Great and sudden fluctuations in the quantity of the precious metals in the world have seldom occurred. Whenever changes have taken place, they have been gradual, extending over a period of many years. And it has been difficult, at the time, to see or to believe that it was a change in the value of money, the standard of value, and not a change in the value of the commodities, which it buys. Changes in the value of articles of sale and commerce, arising from variations of supply and demand, are constantly occurring, and every one becomes familiar with them. But an alteration in the standard of value, that is to say, in the supply of the precious metals and the value of real money, is an unusual occurrence, and the consequences of such a change have been unexpected and not understood at the time. The effect of a great and sudden alteration in the quantity and value of money, may be seen by comparing the prices of

some commodities before the discovery of the rich mines in America with the prices which those commodities bore subsequently; and it will afford full and complete evidence of the truth of the foregoing statements; because, although there are constant fluctuations in the prices of particular articles from time to time without any change in the standard of value, — money, — yet there cannot be a great and permanent change in the prices of all articles in general use without an alteration in the value of the standard by which the price is measured.

After the conquests of Mexico and Peru, the large quantities of gold and silver poured into Europe caused a continually increasing circulation of money. This produced a great rise in the prices of all commodities. In England, these enhanced prices were believed by many to have proceeded from monopolies granted by the government, and from forestalling. Admitting to the fullest extent, the evils and injuries of the system of court favoritism then prevailing, still it is now well understood that the true and efficient cause of the high prices was *the lessening of the value of gold and silver*, in consequence of the quantities produced from the rich mines of Mexico and South America. The other causes which at the time justly excited so much popular clamor were, in comparison, but trifling in their effects.

Freedom of commerce soon equalizes the value of the precious metals in all countries that trade with each other. If gold and silver are brought in unusual quantities into one country, they quickly spread themselves through the others. The process by which this is effected is very plain. The merchant is always

seeking to send his merchandise to that country where he can obtain for it the most money; in other words, the largest quantity of the precious metals. The precious metals he sends to those countries where the largest quantities of such merchandise as he wants can be obtained for the smallest quantity of the precious metals. Spain, for example, was the nation to which came the first great influx of gold and silver from America. That influx, by greatly adding to the amount of the money in circulation in Spain, raised at once the price of all commodities in that country above the level of the prices in other parts of Europe. These high prices encouraged the merchants of foreign countries to send goods into Spain for sale, and to take away the gold and silver which was received for them; and the merchants of Spain found an immediate profit in sending gold and silver abroad, where larger quantities of commodities could be obtained for them than in Spain. Thus the treasure which had been poured into Spain from America quickly spread to other parts of Europe; and thus, whenever the amount of money in circulation in any country is greatly increased, the enhancement of prices produced by it is certain to cause an increase of the import of goods from abroad, which will continue until the circulation of that country and of the prices of merchandise are equalized and at par with the prices in surrounding nations.

When, in the commerce between countries, each takes from the other about the same amount in commodities, those persons who wish to pay money abroad buy the bills of those who have to receive money abroad, and, by this exchange, the payments in each

country are met and settled without the necessity of exporting the precious metals from either side. The "course of exchange" is said to be against the country which has imported more than it has exported, because from that country there is a balance due to the other, for the payment of which no bills can be had, and which must, therefore, be liquidated by the transmission of coin or bullion. This must have been the case with Spain during the period referred to. The "course of exchange" with other countries must have been against Spain, in consequence of the large importations of foreign products, until the value and amount of the money in circulation in Spain, and the prices of commodities approached nearly to, or were at par with, the money and the prices of the surrounding countries. While there was an excess of the precious metals in Spain, it may have been no disadvantage to have had the "course of exchange" against her. It may generally be admitted, that any countries producing gold and silver can, to a certain extent, afford to have the course of exchange against them, and may export the excess of bullion beyond what may be required for use at home.

The effect of the vast and rapid addition to the currency or money in Europe in the sixteenth century is shown by comparing the prices of many articles of trade, at times preceding that event, with the prices at a subsequent period. Carefully prepared tables of the prices of wheat for successive periods, between the years 1423 and 1700, show an increase of price of fivefold, which has continued, with only occasional variations, to the present time; and for which no other cause has ever been assigned than

the increased quantity and cheapness of the precious metals. It appears by those tables, that the average price of wheat from 1423 to 1560 was about ten shillings sterling per quarter of eight bushels, and from 1561 to 1700 it was nearly fifty shillings.

The *value* of wheat from 1561 to 1700, while the average price was nearly fifty shillings, was not greater than its value in the previous years, between 1423 and 1560, when the average price was about ten shillings, if there was the same degree of change in the prices of other articles. If the farmer could get no more of the articles which he needed, and which he obtained in exchange for the wheat that he sold, the *price* in money, which is only the measure of values, had alone changed. If fifty shillings, between the years 1561 and 1700, would buy no more of the articles which the farmer had to purchase than ten shillings would buy previously, the money must have fallen or depreciated in value to that extent. One dollar a day would therefore have been no better wages to a laboring man in the year 1700, than twenty cents a day had been a hundred and forty years before, because it would not purchase for him any more of the necessary supplies which he required for the maintenance of his family.

The following curious document in Doubleday's Financial History of England, extracted from "Drake's Eboracum," is a table of prices at York in the years 1393 and 1733. It shows that the same effects had been produced on the prices of other commodities as on wheat. This must have been occasioned chiefly by the same cause, although it is possible, as that author remarks, that different rates of duties may

have affected the prices of some of the articles of import in the table. But there can be no doubt that these lists of prices present substantially a correct comparison of the prices of articles in general use at these two periods. The prices of 1393 were assessed by the judges of the assize, aided by the bench, "to prevent combinations to enhance prices" when Richard II. and his court were at York.

Prices proclaimed at York in 1393.	£	s.	d.	*Prices at York*, 1733.	£	s.	d.
Strong beer per gallon	0	0	1¼	Strong beer per gallon	0	2	0
A milder sort "	0	0	1	Mild ale "	0	1	0
Finest claret wine "	0	0	8	Best claret "	0	17	0
All common white wines "	0	0	6	White port "	0	8	0
Carcass of finest beef . . .	1	0	8	Choice carcass of beef . . .	9	10	0
Next best	0	14	0	Next best " . . .	8	0	0
Scotch Kyloe ox carcass . .	0	12	0	Scotch Kyloe	4	4	0
" " cow " . .	0	10	0	Cow "	3	0	0
Carcass of mutton, best . . .	0	1	8	Carcass of mutton, best . . .	1	10	0
" " worse fed .	0	1	6	" " worse fed .	1	0	0
Carcass of fine veal	0	2	6	Carcass of fine veal	1	6	0
Another sort of "	0	1	6	Another sort "	0	15	0
A lamb	0	0	8	A lamb	0	12	0
A fat pork hog	0	3	4	A fat pork hog	2	10	0
A smaller pig	0	3	0	A smaller pig	2	0	0
A capon	0	0	4	A capon	0	1	9
A hen	0	0	1½	A hen	0	0	9
A fat goose	0	0	4	A fat goose	0	2	0
One dozen pigeons	0	0	3	One dozen pigeons	0	1	3
Woodcock and teal, each . .	0	0	1¼	Woodcock and teal, each . . .	0	0	9

At Chester, in England, the records of the market prices are extant so far back as to the year 1378. It appears from them, that in the year 1379, the price of a bushel of wheat was 6*d.*; a gallon of white wine, 4*d.*; a fat goose, 2*d.* "In 1437, wheat sold for seven pence a bushel, being a very dear rate according to that time; so that the poore in Chester and elsewhere made their bread of peasen, vetches, and fearn roots."

Since the year 1700, and until the recent discoveries of gold in California and Australia, the quantity of the precious metals in the world had not very materially varied, though there was some fluctuation in the relative value of gold and silver. The average price of wheat, taking long periods of time, has continued about the same. From year to year, it has varied with the character of the seasons, and in some countries, with the condition of the currency. It is well known that the effects in California and Australia have been similar to those produced in Spain after the conquests of Mexico and Peru; that is to say, to raise the price of commodities of all kinds above the level of the prices of other countries. Merchants have found an immediate profit in sending merchandise to California and Australia, to exchange for gold. Their prospects of profit may not always have been realized, in consequence of the effect of the abundance of gold on prices having been often counteracted by the very excessive supplies of many commodities. The activity of modern commerce diffuses rapidly the newly discovered gold, and spreads it over the whole of the civilized world; but sufficient time has not yet elapsed for results from it of a character so marked as to be at once recognized and appreciated.

Effects of Paper Money.

Thus far we have given our attention to the subject of currency in the form of metallic money. Let us now consider the new element of paper money

which has been introduced into the currencies of some countries, though all its effects are not yet so clearly and precisely understood as to cause but one opinion with regard to them. This new element renders the operations of money more uncertain and more complicated. It increases the difficulty of obtaining exact data upon which to base opinions that can be positively verified within a short period of time. The use of paper money for currency has been so profitable to many of those who have furnished it, that they are not generally disposed to encourage any discussion concerning its uses and effects; but, as it exercises an important influence upon the currencies of some of the most commercial countries in the world, it is necessary to know something of its character.

From perceiving certain conveniences in commerce from the use of notes of hand and bills of exchange, variously contrived forms of promises and orders for the payment of money were probably suggested. These may have gradually led to the issue of promissory notes for small sums, payable to the bearer on demand, and transferable from hand to hand, to be used as a substitute for money. They are called paper money. They are not money. They are, in fact, only *promises* to pay money. It would be as correct to say that a contract to deliver flour was in reality flour, as to say that such promises to pay money were really money. Paper money possesses no intrinsic value; it has only a derivative or secondary value, arising from the belief, founded upon the good credit of those who issue it, that it will command, at any time, the amount of the promise in

real money, or that it will be received by others in satisfaction for debts, or for the purchase of any articles, as real money.

When an amount of paper money is added to the circulation of a country, except so far as an amount of coin is withdrawn from circulation and held in reserve by the banks that issue it, it decreases the value of the money in circulation, for the same reasons and to the same extent as the addition of the same amount of gold and silver would have diminished it. The gold, silver, and paper all depreciate together. And this is shown by the rise that immediately takes place in the prices of all articles of sale and commerce. It is this effect on prices that renders paper money so popular among persons engaged in trading pursuits. They are satisfied with this effect of it, which enables them to sell their merchandise at enhanced prices, and to gain apparently large and unexpected profits, without heeding the difficulty of realizing and investing those profits and rendering them secure.

Whether the paper money thus added to the circulation be inconvertible, or whether it be redeemable on demand in specie, so long as it is in circulation and in actual use, its effect of diminishing the value of the money in circulation would be the same. A rise in the prices of all articles would take place, and this general advance of prices would cause increased importations of foreign merchandise, and a demand for gold and silver to export in payment for them. As more paper money would be issued to supply the place in the circulation of the amount of gold and silver thus withdrawn from it to export,

the volume of the currency would not be lessened. The export would continue without affecting the amount of currency in circulation, until the continued advance of prices and consequent increase of importations had rendered the demand for specie so intense that there would be the greatest difficulty in meeting it.

If the paper money were not redeemable in specie, the demand for gold and silver to export would increase their value as compared with the paper money, and they would be sold at some premium. In other words, the paper money would be depreciated as compared with specie. But, if the paper were redeemable on demand in specie, the gold and silver could be obtained for it without the payment of any premium; as any one possessing the paper money could exchange it for specie by demanding it. It is often said, that a currency consisting of paper money redeemable in specie on demand cannot be depreciated, because of the demand for specie it would at once produce.[1] As it is the

---

[1] The following account of a recent affair shows how far, in some parts of the United States, public opinion allows *convertible paper money* to be converted: —

A Banker Hung in Effigy — Excitement at Versailles. — The branch of the Commercial Bank of Kentucky, located at Versailles, Woodford county, has been, for several months past, greatly embarrassed by the constant and heavy drafts made by Mr. Barclay, a Lexington banker, upon its vaults. It was a custom with that gentleman to collect all the notes payable at the Versailles branch, and present them at the counter for redemption. The drain upon the bullion of the bank required very skilful financiering, on the part of its officers, to prevent a collapse, and, as a consequence, it was impossible for the institution to afford merchants, farmers, and tradesmen the desired discounts and other monetary facilities. Thinking that this *draw game* had been played sufficiently,

depreciation which *causes* the demand for the specie that is to be the remedy, some degree of depreciation must first occur. But the remedy of a demand for specie will not operate, to any great extent, until the depreciation has continued long enough to produce an advance of prices and increased importations. It will not create the demand for specie to any great extent, until it has affected the importations. And, in fact, it is usually by the increase of imports and the rise of exchange, and the demand for specie to export, that a depreciation of the currency renders itself perceptible. If the paper were not convertible into specie on demand, the extent of the depreciation would be indicated in some degree by the premium on the specie. But it is not always a certain index of the extent of it. The amount of coin withdrawn from circulation to export is at first supplied by an addition of paper money. The depreciation of the currency may therefore continue for a long time before it is affected by the demand for the precious metals to export.

The depreciation of paper money, as compared with specie, is one of the consequences of inconvertible paper money. This depreciation is often confounded with the depreciation of the local currency as compared with the currencies of other countries. The misfortune is, that these two evils of depreciation, both of local currency and of foreign exchange, may,

---

the citizens of Versailles met together on Saturday, passed resolutions denouncing the conduct of Barclay, and then proceeded to hang him in effigy. The indignant people also promised to make summary work with Barclay, or his clerk, if either ever again molested the vault of their bank. — *Louisville Courier, of Tuesday, January* 30, 1855.

and frequently do, occur at the same time. In the sixteenth century, the currencies of Spain and of the other parts of Europe consisted wholly of specie. Yet the currency of Spain became greatly depreciated in comparison with that of the other countries, by reason of her supplies of the precious metals from America. So, at the present day, when paper money is redeemable on demand in specie alike in the United States, England, and France, no one can doubt that the abundant paper money in the United States, with its notes even so small as one dollar, is more depreciated than the currencies of England and France, where the amounts of bank-notes in circulation are restricted, and where no bank-notes are allowed of smaller values than twenty-five and twenty dollars (£5 and 100 francs).

The greatest mischief of a depreciation of a currency of paper money, whether it is redeemable on demand in specie or not, is, that it is constantly varying in value by changes in the amount of such money in circulation. This operates with great injustice and great injury to the community, though individuals are often made rich by it. Great injustice occurred towards the people in Russia when the paper money circulating as currency there was allowed to depreciate to nearly one quarter of the value at which it was first issued. It then represented the silver rouble, equal to nearly eighty cents of our money. Not being convertible on demand in specie, it gradually diminished in value, as increased quantities of it were issued, until about four paper roubles were required in exchange for one of silver. It would have been equally unjust to have restored

these paper roubles to their original value after the public had become accustomed to their depreciation, and had based all their transactions for years upon that depreciated value. Being under the control of the government, after the general peace of Europe in 1815, any further depreciation was prudently guarded against by regulating the amount in circulation, and adapting it to a relative value with the silver coin, which was annually declared, and which, though varying slightly in different years, was usually about three and six tenths of paper to one of silver. It continued thus, for many years, to supply the community with a currency of nearly uniform value. It has since been entirely withdrawn from circulation, and new paper, convertible into specie on demand, was issued in the place of it, of the same value as the silver coin of the country, at the rate of one for three and a half of the old paper roubles. The money of accounts was gradually and easily changed. The people had become accustomed to the difference of value between the old paper and the silver rouble. They were not required to believe that there was no difference, as was unwisely and ineffectually attempted in Great Britain during the suspension of specie payments. There, it was made illegal to estimate in payments any difference between the coin and the paper money in circulation, although light guineas, which, being below the standard weight, were not a legal tender, often sold for more than thirty shillings of paper money.

The paper money of our own country during the Revolution, from 1775 to 1781, known as "the continental money," affords an instance of a different

character. The first issue of it was made by Congress in August, 1775. It continued for some time without depreciation, and until the amount exceeded nine millions of dollars. In April, 1778, the amount in circulation was thirty millions of dollars. The condition of the war was then most discouraging, and no limit could be perceived to the amount that might be issued. The value became depreciated to six dollars for one of silver. While the issue of nine millions had been at par, and would have remained so, if no additions had been made, the thirty millions in circulation came to be worth only five millions in hard money.

The capture of Burgoyne's army, in October, 1777, and the treaty with France, opened a more favorable prospect, and in June, 1778, though the issues of the continental money had been suddenly enlarged to more than forty-five millions of dollars, the depreciation was only as four of paper to one of silver. Soon after, the probabilities of peace again seemed as distant as ever. The value of the continental money then diminished constantly and rapidly, never to rise again.

In March, 1779,	the silver	dollar	was worth	30	paper	dollars.
In January, 1780,	"	"	"	40	"	"
In January, 1781,	"	"	"	80	"	"

and in May, 1781, it ceased to circulate as money, though the notes were afterwards purchased for speculation at rates varying from 500 to 1,000 paper dollars for one of silver.

The total issues of the continental notes, three hun-

dred and sixty millions of dollars in all, probably at no time exceeded the value of fifteen millions of silver money. This paper money effected a good and a great work at a most critical time, and the loss by its total depreciation was not much greater, or less justly distributed, than it would have been by any scheme of taxation, or by any other method possible in those difficult and revolutionary times. No attempt to redeem this paper money has ever been made by the United States. In view of the impossibility of indemnifying the really meritorious creditors of the country, further than was afterwards done by the pension laws, by the allowance of claims, grants of military bounty lands, and appointments to government offices; and considering, moreover, that the great rise in value, by the redemption of this paper money in coin, would have been as unjust to debtors as the great depreciation of it had before been to creditors, perhaps the opinion may be entertained that the government rightly abandoned the continental money in its fallen condition.

A depreciation of currency may take place, even when the precious metals are alone used, occasioned by a great addition to the quantity in circulation. It occurred in Spain after the conquests of Mexico and Peru, to which reference has been made. Such depreciations, however, have seldom happened, because of the infrequency of great additions to the precious metals. When such an increase of the quantity of gold and silver has occurred, the effects have been gradual and spread over a period of many years. But wherever paper money is used for currency, the depreciations produced by additions of it to the circulation occur

often. They are sure to take place again and again, almost as soon as they are remedied, and are rapid and violent in their consequences, causing at frequent intervals much alarm, bankruptcy, and distress.

With a mixed currency, consisting chiefly of bank paper redeemable on demand in specie, whenever by reason of the general advance in prices, and the consequent increase of imports, the demand for specie has become so urgent that it is difficult to meet it, the banks that have issued the paper money become alarmed for their safety, or for their ability to continue to pay specie. Then commences *the remedy* for the depreciation of such a currency. The export of specie did not produce the remedy so long as the volume of the currency was not diminished by it. But when the demand for specie has become so intense, or the quantity of it so much diminished, as to alarm the banks, the remedy commences. It is a sure, though a sharp remedy. It is brought into operation by stopping all discounts at the banks, and requiring the payment of all previous loans as they fall due. In England, this is usually preceded or accompanied by sales of securities belonging to the banks. Traders and merchants are forced at such times to make great efforts to obtain money to pay back their loans to the banks. To do this, they must sell property at low prices, or borrow money at exorbitant rates. A general decline of prices is thus produced, which soon renders the import of many articles of merchandise from abroad unprofitable. Many kinds of merchandise become so cheap that it is advantageous to export them in order to bring back specie. The payment into the banks of previous loans, while the banks refrain from making any new loans, — and

the exchange of the paper money at the banks for specie, — and the sums withdrawn from circulation by the sales of securities belonging to the banks, — soon reduce the amount of the paper money in circulation. Thus the currency is restored to a sounder condition by approaching more nearly to a specie basis.

This is the only process by which to remedy the depreciation of a mixed currency consisting partly of paper money redeemable on demand in specie. It is a process which invigorates the currency at the expense of the industry and the enterprise of the country.

"But these alternations of bank expansions and nominal prosperity, followed by bank contractions, disappointments, and, perhaps, failures, are very much to be deprecated. The banks, to be sure, have no difficulty in these cases; if well managed, the whole pressure is thrown on the mercantile community." — *Hon. Nathan Appleton.*

There is always money enough during these contractions of the currency to enable all those to pay their debts who have *sufficient* property. But the value of their property must be estimated at a new and reduced scale of prices. Money can be obtained either by the sale of property, or by borrowing at a high rate of interest. Money may cost one per cent. a month, or it may be worth double that rate. Not that there is more money at these high rates than at the lawful rate of interest. The only difference is, that at the high rates, it can be borrowed, while at lower rates, the possessor may prefer to make some other use of it. The question to be considered by the merchant or trader who has money to pay at such a time, is, whether to sell his merchandise at the reduced prices, or to borrow money at the high rates, and continue to hold his

merchandise, with the hope of selling it afterwards at prices so much higher than the present reduced price that the difference will more than pay the high rates for the borrowed money. The prices of merchandise and of property of all kinds must be accommodated to the new condition of the currency, which may be sufficient to conduct the business of the community at the reduced scale of prices, when it would not be sufficient if prices were maintained at former rates. These differences in prices, produced by contractions of the currency, often render bankrupt many of those who are so unfortunate as to owe at such times large amounts of money.

The wealth or capital of a country is made up of all the various kinds of property that exist in a country, including all those commodities which are consumed by use and annually reproduced, such as the articles of food and clothing, as well as the objects of a more permanent character, such as the cultivated lands, dwelling-houses, warehouses, and barns, the buildings and machinery of manufactories, tools for agricultural and mechanical purposes. All of these are not immediately consumed by use, but continue to perform the service which they render to the community over and over again, year after year. The money or currency of a country, when it consists of the precious metals, is another of the items of the wealth or capital of a country belonging to the class of permanent property, which is not consumed by use; but, being once in the possession of a country, it remains, always ready for use over and over again. As the warehouses and barns remain, and year after year perform the important service of protection and storage for many of the

articles of property, so the coined money of the country continues, year after year, to perform the important service of measuring the values of all other articles in the daily transactions of trade and commerce.

It has been stated by some writers on finance and currency, that the aggregate amount of capital invested in the warehouses and barns of a civilized community is equal to the whole amount of the money required to carry on the commerce and trade of that country; and that the warehouses and barns could as well be dispensed with, and the articles which are usually stored in them, kept in open fields and protected from the weather by temporary and cheap coverings, as the coined money could be dispensed with, and paper money used as a substitute for it. The inconvenience and loss and injury to the commodities, which require to be stored, would often, in a single year of unfavorable weather, be equal to the whole cost of substantial warehouses and barns. And so with the money of the country; the inconvenience and injury and losses occasioned by the use of paper money, may not always be so apparent, but, often in a single year, they exceed the whole amount of coined money that would supply a substantial and permanent currency for the country.

The amount of property returned for taxation in the State of Massachusetts is about *six hundred dollars* a head for the population of the Commonwealth. The amount of coined money required to perform the business of an active commercial community, has been estimated on the average at about *ten dollars* a head for the population. If this is correct, less than two per cent. of the amount of the taxable property of this State is required in coined money for currency to per-

form all the business of the community. No one can doubt that the depreciation of the value of property and the losses produced by a single instance of the violent fluctuations of the currency, which so often occur in a country where paper money is used, is far more than two per cent. of the taxable property of that community.

Sketch of the History of the Modern Currency of Great Britain.

An examination of some portions of the financial history of Great Britain, and of the history of paper money there, may assist us in forming a correct estimate of the utility, as well as of the value and of the effects, of paper money. In that country, they have already gone through with the experience of paper money on the large scale. The results of it have been well known and recorded. Their bank statistics and tables of prices have been, from time to time, collected and published, both by public commissions and by private individuals. And the great concentration of their moneyed affairs in the Bank of England, presents a more marked and intelligible account of their progress than is to be found in the financial history of any other nation.

The first charter of the Bank of England was granted on the 27th July, 1694, in fulfilment of a promise of the government to secure "certain recompenses and advantages to such persons as shall voluntarily raise £1,500,000 towards carrying on the war with France." The whole of the capital of the bank, amounting to

£1,200,000, was loaned to the government at 8 per cent. per annum, and £4,000 in addition was to be paid to the bank annually, for its agency in the management of the loan. For the remaining £300,000, which had been subscribed to make up the required amount, the government issued obligations to pay annuities directly to the individual subscribers. This was the first permanent debt created by the government of Great Britain, for which it was only necessary to provide the annual interest, and it may be considered as the commencement of the national debt, which has ever since continued to augment. The notes issued by the bank commenced the system of paper money there, being the first paper security that was used to pass from hand to hand as money, except the receipts for more considerable amounts of coin deposited with goldsmiths in their capacity as bankers, which had for convenience been sometimes used in that way among merchants.

At first, the lowest sum for which the bank issued any of its notes was twenty pounds, equal to nearly one hundred dollars in the money of the United States; and this continued sixty-five years, until 1759, when bills were issued for ten pounds, that the bank might more conveniently loan to government the necessary supplies of money to carry on the French war of that period. It was not until 1777, during the war of the American revolution, that the bank was allowed to issue notes of so small a denomination as five pounds, equal to nearly twenty-five dollars of the money of the United States. The object in reducing the denomination of notes, in each instance, was to aid the government in obtaining money to carry on expensive wars.

Five pounds continued to be the minimum sum for which a note could be issued by the Bank of England until 1797, during the war against the French republic, when the bank suspended specie payments. Then, in consequence of the depreciation of its notes as compared with specie, it became necessary, for the convenience of trade, to issue one and two pound notes, equal to only five and ten dollars of the money of the United States. These small notes were considered a temporary expedient only, to meet one of the exigencies of the suspension of specie payments. And, by the act passed in 1819 for the resumption of specie payments, the lowest denomination of notes issued by the bank was again limited at five pounds, to take effect after May, 1823.

And here may be noted, in passing, how much the history of the currency of England, during the last century, has been connected with the history of America. The first issue of bank-notes in England of the value of ten pounds was to help the war, in which Wolfe climbed the heights of Abraham, and ended his glorious career with the capture of Quebec and Canada,—the same war in which Washington received his first lessons in the military art.

The issue of bank-notes for five pounds was first made during our revolution, in which Washington acquired his immortal renown, and when the alliance with France, of which the motive was mainly the loss of Canada in the previous war, did so much to aid and to secure our independence as a nation.

This revolution of America planted the seeds which ripened in the revolution of France. Soon followed the long wars ending in 1815, which caused the Bank of

England to stop payment, and to issue notes of one pound, the smallest paper money ever known in England.

It is argued by those who advocate the use of paper money, that, "during the suspension of specie payments by the Bank of England, though the bills of the bank depreciated nearly twenty-five per eent., the shares of the bank were worth nearly or quite one hundred per eent. advanee." This depreciation of its bills made no differenee to the bank. The publie bore that loss; and, so long as the publie was obliged to receive the bills and use them as money, the bank gained its interest on their eireulation. It is not surprising that the profits of the bank inereased, with the unrestrieted power to issue any amount of notes irredeemable in speeie, or that the increase of profits should have been nearly or quite sufficient to double the priee of the stock of the bank, while there was not then even the eheck of convertibility to eontrol the amount of paper money that the bank eould issue.

Again, it is said that when the government authorized the bank "to issue promises to pay money on demand, to be used for eurreney, it did not undertake to make them a legal tender for the payment of debts from one individual to another, or to *compel* its own ereditors to reeeive them as money. The law left these bank-notes exactly what they were, promises to pay money. It made it lawful for the bank to issue them to sueh persons as should ehoose to receive them; to be used for eurreney by sueh persons, and by sueh persons only, as should ehoose so to use them." Is not this statement one of those

ingenious sophistries, that are sometimes used to deceive the public? It is well known that individuals are *compelled* to use for money whatever currency is legalized and may be in general use. They have usually no choice about it. When paper money is authorized by a government, or even permitted, it must become the common currency of that country. The government, therefore, sanctions, and stringently, though indirectly, requires the public to use bank-notes for money, when it authorizes and sanctions the issue of them by the banks. In Great Britain, during the suspension of specie payments, laws were enacted to protect the banks against suits to enforce the promise of payment on their notes. The State governments in the United States have done the same thing under similar circumstances.

No one can doubt that the issue of paper money, to be used for currency, is profitable to a bank. It is most profitable during a suspension of specie payments; because the bank can then issue and keep in circulation larger amounts of it. It can also loan the whole amount, as it is not then necessary to keep any specie on hand for the redemption of the bills. When the Bank of England suspended specie payments in 1797, the amount of its bills in circulation was £9,674,780, equal to about forty-five millions of dollars in the money of the United States. At the close of the war in 1815, it amounted to £27,274,670, or about $175,000,000. It must, of course, have been very profitable to the bank to keep up such an amount of circulation; and it is not surprising that the value of the stock was nearly or quite doubled. But, in considering the public interest, it is more important

to know what effect so great an increase of circulation produced upon the whole community, rather than how the few prospered who were stockholders of the bank. The amount of the circulation of the Bank of England, during the suspension of specie payments, can be ascertained from official documents; but it is not so easy to know the extent of the circulation of notes by private and local banks.

English writers upon that period of the financial history of England assert, that soon after the suspension of specie payments, on the 27th February, 1797, the continued advance of the prices of all sorts of merchandise, occasioned by the rapid increase of bank-notes in circulation, and the progressive depreciation of the currency by the great additions to it of this paper money, caused, with some few interruptions, "an appearance of growing and perennial prosperity amongst every class of the people, but the class of those who toil. No branch of industry escaped the delusive effect produced by this plethora of paper money. Enormous fortunes were made by contracts with the government for the supply of stores and provisions; but more particularly by government loans, in some of which, the profits were so great that the gains on one might be, almost literally, said to be capable of affording the means for the next one." "All who dealt in money, capitalists, bankers, stock-jobbers, and speculators of every kind, and all merchants, manufacturers, and traders were put in a position in which profit and wealth flowed in upon them." "While every thing else advanced nominally in price, in order to keep pace with the falling value of the inconvertible paper money, which was now being poured

forth all over the kingdom, the wages of labor lagged behind, and the temptation to rob the poor was increasing." "For as the paper money swelled in amount, the prices and rates of every thing grew and rose apace; while the receivers of wages, the laborers, both agricultural and commercial, were gradually depressed, the rates of wages generally, not keeping pace with the advance in prices." "Money was drawn up into great masses in the possession of saving persons, while the laborers were turned over to the protection of the poor-laws." "It is certain, that up to the time of the accession of George III., in 1760, many of the rural population owned their cottages and gardens. After that time, the increasing difficulty of living caused them rapidly to disappear. The cottage of the grandfather was sometimes sold to provide maintenance for the pauper grandchildren. And, at the end of the war in 1815, little of this property of the industrious poor was left." "During the time that enormous fortunes were being realized by the trading classes," "those who do the labor of the country were gradually and silently being stripped of all hold upon a soil, which, were it not for them, would be worthless."

Such are represented to have been some of the effects produced by the progressive increase of paper money during the suspension of specie payments, which was so profitable to the Bank of England, that the stock of the bank nearly or quite doubled in value.

It is well, however, to examine it still further, and to ascertain more particularly what effects were produced by the contraction, which must always follow, at some time, one of these inflations of currency.

The quantity of paper money in circulation had been almost constantly increasing during the suspension of specie payments, and prices constantly rising in consequence of it. But, immediately after the peace in 1815, it was well understood that this depreciation of the currency would not be much longer tolerated. With the interruption of foreign commerce, occasioned by the war, some of the evils of such a condition of currency could be restrained. But the revival of commercial activity, as soon as peace was declared, would have inundated the country with the products of foreign labor, which would certainly discourage domestic industry. Notice was given by the government to the Bank of England that the suspension would no longer be sanctioned, and that they must prepare for the resumption of specie payments. It was not, however, until 1819 that the act of Parliament was passed for immediate resumption. At the same time, all paper money of a smaller denomination than five pounds was forbidden, the prohibition to take effect after 1st May, 1823.

Much has been said and written respecting the extent of the depreciation of bank paper in Great Britain during the suspension of specie payments. It is difficult to define it precisely, but there is no doubt that, at times, it considerably exceeded twenty-five per cent. The quantity of paper money in circulation was constantly fluctuating, and at the same time the prices of gold and of property of every kind. Five pounds in paper, was a common price for the ounce of gold; and light guineas, which could be openly sold, were *legally* worth more than those of full weight. Five pounds in paper was often paid

for three and a half light guineas, because not being of the standard weight, they were not considered legal coin of the realm. Laws had been passed prohibiting, under penalties, the taking of bank-notes at less, or of coin at more, than their nominal value. The price of gold is not, under such circumstances, a correct measure of the depreciation of the paper money. The average price of wheat is, perhaps, the surest criterion by which to judge of the extent of the depreciation of the currency. From 1783 to 1794, the price of wheat in Great Britain averaged a trifle over forty shillings; and from 1808 to 1815 the average price was about ninety-five shillings. Since then, it has been more difficult to estimate the average price, for the purpose of comparison, in consequence of the corn laws, which were first passed in 1815; but, during the seasons of good crops since that year, in which the corn laws would be nearly inoperative, the usual price has been between forty-five and fifty shillings; and since the corn laws were repealed, in January, 1849, and all grains imported into England have paid only a nominal duty, the price of wheat has rarely exceeded fifty shillings, until the two last years, one of short harvest, the other of war.

One of the first troubles, which occurred after the peace in 1815, and in consequence of the preparations to restore the depreciation of the currency, was that of "plenty and cheapness." The people had looked forward to it as one of the greatest blessings of peace. Among their illuminated devices to celebrate the close of the long wars which ended in 1815, was a great loaf of bread and a foaming pot of beer, with the mottoes, "I am coming down," and "I am

coming after you." But "this vulgar view of cheapness" was far from being agreeable to those who had been accumulating large fortunes during the period of high prices and speculation. The discounts of the Bank of England were reduced in one year after February, 1816, from twenty-three millions down to eight millions of pounds sterling. "This reduction of private loans answered two purposes of the bank; it kept the circulation within bounds; and, if it slaughtered the merchants and manufacturers, it brought about another novelty, a reduction in the price of gold down to four pounds the ounce, or nearly to the mint price (£3. 17*s.* 10½*d.*)." The consequences of it were, that the prices of all articles suddenly diminished to a ruinous extent. Distress and bankruptcy extended to every part of the country, and overwhelmed many of those who were withdrawn from trade, as well as those who were engaged in the active pursuits of business. In addition to the enormous numbers of merchants and others, of all grades and distinctions, no less than eighty-nine country banks became insolvent. The mercantile part of the community, however, after a time, began to accommodate their business to the new scale of prices and to the changed condition of the currency, and trade gradually resumed its usual course.

At the commencement of the suspension of specie payments, in 1797, the number of country banks in Great Britain was estimated at about two hundred. They increased rapidly, from year to year, until 1815, when the number was nine hundred and forty. This "enormous vegetation of banks," possessing the power to issue bills to be used for currency, must have pro-

duced a vast increase in the amount of the paper money in circulation during the suspension of specie payments. And it is rather a matter of surprise that they should have been so prudently managed, that only about eighty-nine of them were made bankrupt by the contraction of the currency when the resumption took place.

The petition of one Charles A. Thompson, for the redress of his losses, which was presented in 1823 to the House of Commons, by Lord Folkstone, and to the House of Lords, by Earl Stanhope, illustrates the effects produced by the change from a condition of currency which was so profitable to the Bank of England that its stock nearly or quite doubled in value. The petition stated, that some years before, during the suspension of specie payments, the petitioner, in connection with his father, had purchased two estates, one costing £72,000, which they paid for in money, the other costing £60,000, which was partly paid for in money, and the balance in a mortgage upon both of the estates. In consequence of the reduction of prices occasioned by the contraction of the currency to resume specie payments, both estates together would not sell for enough to pay the mortgage, and it had been foreclosed. The party from whom the estate was purchased for £60,000 had received £18,-555 in money on account of it, and now, in addition to that sum of money, possessed both of the estates, which had cost £132,000. In consequence of this great change in the value of property, resulting from the changes in the currency, which were authorized and sanctioned by the government, he had become bankrupt. "His father had died of a broken heart,"

and he himself is a ruined man, with seven children of his own, ten of his brother's, and seven of his sister's, all dependent on him. He imputes no intentional wrong doing, but grievous error to the government; yet he hopes they will not change error into injustice by persevering in it;" and prays "for an equitable adjustment of his own and other similar claims growing out of the changes authorized by the government in the currency of the country." This was only one of many thousand instances, which occurred at that time. Few of them were ever recorded, and nearly all are now forgotten.

The admirers and advocates of a cheap currency may say, that all the evils of this period, in Great Britain, were the consequences of the suspension of specie payments, and of the efforts to restore a depreciated paper money to par, as compared with specie. Therefore, they argue, that such examples can be cited only as objections to the use of an *inconvertible* paper money. This is a mistake. For the purpose of proving that such evils are not peculiar to inconvertible paper money or to a suspension and resumption of specie payments, it may be well to notice some of the effects of the next great monetary crisis in Great Britain, the troubles of which commenced in the latter part of the year 1825, some years after the resumption of specie payments.

The act of 1819, providing for the immediate resumption of specie payments, prudently delayed the time of withdrawing from circulation the notes of a smaller denomination than five pounds beyond that fixed for the resumption of specie payments, so as not to increase the inconvenience of that measure. This

allowed ample time to the banks to recall gradually the small notes, that specie might come in to supply the place of them. The country bankers were naturally reluctant to give up the profits which they had derived from issuing notes below five pounds. These had been mostly withdrawn from circulation, and both the public and the banks had prepared to have the law which forbade their circulation carried into effect. Taking advantage of the discontent caused by the restriction of the currency in consequence of the resumption of specie payments, they succeeded in inducing the ministry and parliament to sanction the circulation of them for an additional term. Early in the year 1823, and only a short time before the period named in the law of 1819 for rendering the small notes illegal, the act was passed by Parliament to authorize the banks to continue their circulation for eleven years longer.

The joy of the unreflecting portion of the public at this result was excessive. "Landlords, farmers, bankers, merchants, ship-owners, and tradesmen, all joined in the universal exultation. They were not long in persuading themselves and each other that the sun of national prosperity was now risen, never to decline, never to be eclipsed again." Fortunately for the Bank of England, it would not take advantage at that time of the new law, but continued to issue no bills of a smaller denomination than five pounds. The country banks generally availed themselves of it, and inundated the currency of the country with an immense amount of small notes. Mr. Thomas Tooke, a celebrated writer on finance, in a treatise on the state of the currency, which he pub-

lished in 1826, estimated the addition to the circulation at this time to have been not less than fifty per cent. All these notes in circulation were redeemable in specie, on demand; and were, therefore, always at par as compared with specie. But this did not diminish their effect in depreciating the currency. The immediate consequence of the great issues of paper money was a general rise in the prices of property of every kind, and apparent prosperity in all branches of industry and trade. The importations of the products of foreign labor increased immensely, and, consequently, the revenue from duties on imported goods. At the next session of Parliament, in 1824, the Hon. Frederick Robinson, afterwards Lord Ripon, then Chancellor of the Exchequer, alluded exultingly to the great rise of prices that had occurred, the increased revenue, and "the matchless prosperity of the realm;" boasting of them as the result of the wisdom of the ministry in permitting the continued circulation of the small bills. This afterwards brought upon him the cognomen of "Mr. Prosperity Robinson."

This apparent prosperity continued less than three years. Towards the autumn of 1825, strong symptoms of an approaching catastrophe began to be seen in the extravagant prices of many articles of common consumption. "The Bank of England had become alarmed as early as in July of that year, and began to draw in their notes by privately selling Exchequer bills. It was too late, however, to avoid a crisis." The enormous amount of imported goods must be paid for, and the bills drawn against exports were not sufficient for it. The coin of the country was, there-

fore, exported in large quantities. Under these circumstances, *with a circulation of paper money convertible on demand in specie*, the depreciation of the currency, and the high prices it occasioned could not be sustained. As the demand for specie continued to increase, the banks generally became alarmed, and, in December, the panic commenced. It spread through the whole country. Great Britain and Ireland seemed to be one scene of confusion, dismay, and bankruptcy, worse even than had existed at any time during the process of resuming specie payments some years before.

Notwithstanding that the Bank of England had foreseen the trouble, and commenced so early to prepare for it, even that great institution sustained itself with difficulty, and its coin was at one time reduced nearly to a million of pounds sterling. There was a probability of its being entirely exhausted of specie, when, as a temporary resource, the bank availed itself of the law to issue small notes, having accidentally found in the bank a box of the old notes for one and two pounds, which had been used during the suspension of specie payments, and happened not to have been cancelled.[1]

---

[1] The following evidence before the secret committee of the House of Commons, in 1832, was given by Mr. Jeremiah Harman, then one of the principal directors of the Bank of England.

Q. Was there a period in December, 1825, during which the bank contemplated the probability of being entirely exhausted of gold? *A.* At the latter end of 1825, *decidedly*.

Q. Do you recollect the lowest quantity of gold which the bank possessed during any period of December, 1825? *A.* I do not remember immediately; but it was *miserably low*.

Q. Was it under the sum of £1,300,000 you have named? *A. Unquestionably*.

It is difficult to estimate the extent of the injury produced by this revulsion of paper money in Great Britain. It extended through the commercial world. In London, where the Bank of England alone issues notes for circulation, the failures among the bankers were few and less disastrous. But more than one hundred of the country banks failed, and countless numbers of merchants, manufacturers, and traders of every kind became bankrupt.

An act was finally passed by Parliament in 1829, to abolish all paper money in England of a smaller denomination than five pounds, equal to nearly twenty-five dollars of the money of the United States; but, in order to neutralize the opposition made to this measure by the Scotch banks, the small note circulation of Scotland was continued. This exception in their

---

Q. It was stated by the late Mr. Huskisson, that he, as a member of the administration at that time, suggested to the bank, that, if their gold was exhausted, they should place a paper against their doors, stating that they had not gold to pay with, but might expect to have gold to recommence payments in a short time; do you recollect such a suggestion? *A.* There was such a suggestion.

Q. What would, in your opinion, have been the consequence of that paper, placed against the door of the bank, without preparation to support commercial and financial credit? *A.* I hardly know how to contemplate it.

Q. The bank issued one pound notes at that period. Was that done to protect its remaining treasure? *A.* Decidedly; and it worked wonders. And it was by great good luck that we had the means of doing it; because one box, containing a quantity of one pound notes had been overlooked, when the others were destroyed, and they were forthcoming at the lucky moment.

Q. Had there been no foresight in the preparation of these notes? *A.* None whatever; I solemnly declare.

Q. Do you think that the issue of these one pounds notes did avert a complete drain? *A.* As far as my judgment goes, *it saved the credit of the country.*

favor has undoubtedly been profitable to the Scotch banks. But, as their circulation is local, not extending beyond the borders of that country, the evils resulting from it are diminished. This currency of paper money of small denominations may account partly for the poverty that exists in Scotland.

From this last-recited instance of the money crisis in England, of 1825, when the paper money had been redeemable in coin, as compared with the previously recited instance when the paper money was not redeemable in coin, an opinion may be formed of the effects and dangers of such fluctuations as occurred under those different circumstances. The only essential difference will be found to be, that with paper money convertible into specie on demand, the effects of a depreciation of the currency are more rapid and violent. The crisis will go through its different stages, from the high price and *apparent* prosperity of the inflation, to the decline of prices and *real* distress of the contraction of the currency that must necessarily follow, in less time than when the paper money is not convertible on demand. The resumption of specie payments was in 1819. Therefore that "necessary quality of a good currency," being redeemable on demand in specie, was not wanting to the paper money in circulation during the financial troubles of 1825.

The principal object of the currency laws, passed in Great Britain in 1819, was to restore the paper currency in circulation to par as compared with the precious metals. The act of 1844 was intended to restrict the occasional depreciations of the currency as compared with the currencies of other countries,

by limiting the amount of paper money which could be issued by the banks. Those laws were in accordance with the wise policy, which should be found in the financial history of all civilized nations. That is to say, as a country grows richer, it ought to provide constantly a more and more substantial basis for any paper currency that it may have been considered expedient to tolerate at an earlier time, and under different circumstances, until the paper can be wholly withdrawn from circulation, and the currency of the country consist wholly of real money.

The act of 1844, for the renewal of the charter of the Bank of England, is the only important change in the currency laws of Great Britain since 1819. The object of it is, to limit the control of the bank over the currency of the country by restraining its issues of paper money. It permits the bank to issue notes, *to the extent of the government stocks which it holds*, not exceeding fourteen millions of pounds sterling, that having been found to be the lowest amount to which the issues of the bank had been for many years reduced. It also allows the issue of post-notes, for the convenience of remittances, to the extent of two millions. For every note issued beyond these amounts, (in all, sixteen millions sterling) it must hold an equal sum of the precious metals. It has, therefore, no interest in extending its issues of paper money beyond the sixteen millions, as it could not increase its loans or investments by doing so, but is obliged to keep the whole of such excess on hand in bullion or coin.

The wisdom of this law has been questioned, and in some respects, it appears to be justly so, unless it was intended, as very possibly it may have been, only

as a temporary measure, to prepare the way for abolishing altogether the circulation of paper money in England. The deposits of the government and of individuals always amount to many millions. Unexpected drafts upon those deposits may, at some time, place the bank in a position that would cramp its operations, or render it necessary to transgress the law. Should the precious metals in the bank be ever entirely withdrawn, the law requires its circulation to be reduced to sixteen millions, including the two millions of post-notes. But, suppose the amount of the paper in circulation, including the post-notes, to be twenty-six millions, and the coin and bullion in the bank to be ten millions (which, certainly, may not be a weak condition for the bank), the payment by the bank of drafts against deposits, if paid in notes, would create an excess of notes in circulation beyond the amount allowed by the act; while, on the other hand, if the drafts were paid in coin, the precious metals in the bank would be reduced below the legal amount. The bank, in such a case, though perfectly strong to fulfil its obligations, would seem to be checkmated by the law. Its only resource, then, unless a sufficient amount of its loans were falling due, would be to dispose of securities in order to get in some of its notes or coin; a resource that might produce great inconvenience to the public, and much loss to the bank.

The opinion has been expressed by eminent bankers, that, in case of a serious war, the Bank of England could not sustain specie payments; and therefore, that an order in council should be issued, immediately on the commencement of such a war, to oblige the bank to suspend specie payment at once, before its specie

was drawn out. For, the very apprehension of an occurrence similar to that of 1797, would cause a run for specie, which would render a suspension unavoidable.

If the effect of war upon the currency of England, where the circulation of paper money is comparatively so limited, and where there are no bank-notes of a smaller denomination than five pounds, equal to nearly twenty-five dollars of our money, would cause a suspension of specie payments, what would be the consequences in the United States, where paper money is issued in notes of every denomination down to one dollar; and where there are more than twelve hundred different banks, spread over the whole country, and established in each of the different States by the State governments, at the discretion of each, and therefore subject only to a local and very limited control, and entirely independent of the influence of the national government?

From all these considerations it may be concluded, that few, if any, benefits now result from the use of paper money in England, except the profit to the bank. Considering the amount of specie which, under their system, must be kept in the bank to be ready to redeem their notes on demand, and all the trouble and expense incidental to the manufacture of the notes, and the precaution necessary to guard against frauds, it is doubtful, if the account could be fairly stated, if the profit to the bank be very great. Fifteen or twenty millions of coin would more than supply the place of the notes issued by all the banks in England. That amount of coin could be supplied to take the place of the paper in circulation, without

inconvenience or difficulty, during any of the seasons of plethora in the money market which often occur there, when new sources for investment are sought after in every direction. The inevitable laws of trade, which are just, and gradual and uniform in their operation, would then be left free to produce their natural effects upon the currency. The increase of real money, accumulated in times of prosperity, would prevent, in seasons of short crops, or of threatened or actual wars, the addition to the public calamity of the evils of those money panics, peculiar to the artificial system of paper currency, which are so disastrous in their effects upon the community, and may even for a time prevent the prompt and free action of the government.

The following is the official return of the circulation of the Banks in Great Britain on the 3d of September, 1853: —

The Bank of England notes	£22,836,269	Specie		£16,986,088
Private banks "	3,676,104			
Joint-Stock banks "	2,984,560			
Total in England "	£29,496,933			
" " Scotland "	3,728,890		"	1,174,058
" " Ireland "	5,230,387		"	1,447,830
Total in Great Britain,	£38,456,210	Total	"	£19,607,976

Currency in the United States.

It has been already shown that the great objection to the use of paper money for currency is, that it produces very injurious effects upon the industry of the country, by stimulating the importation of the products of foreign industry. This it does by the

rise of prices, which it causes, increasing thereby the cost of production. The variations that occur in the quantity or amount of it in circulation, render it a constantly fluctuating standard instead of a true measure of the value of other objects.

The first effect of an increase of the money in circulation in any country is apparently to make money plenty; but it is, in fact, a depreciation of its value. This is shown by the general advance that takes place in the prices of commodities of every kind. When the advance of prices has occurred, money becomes as scarce as it was before. It is true that it is not always the amount of money in circulation, which settles the question of plenty or scarcity of money. "Every business man knows, that to-day the circulation of the banks may be twenty millions, and that money may be so plenty in the market as to be worth only five per cent. a year; and that a year from to-day, the circulation remaining the same, money may be so scarce as to command eight or ten per cent. per annum." But every business man does not appear to know that the natural and regular consequence of a large addition of paper money to the circulation is *always* to render money plentiful and cheap at first. This plentiful and cheap supply of money produces an artificial rise in the prices of property of every kind. So that within a year, unless the amount of money in circulation is still farther increased, so much more will be required to transact the same business, at the inflated scale of prices, that money will be in demand at eight or ten per cent. per annum.

The increase of the money in circulation in any country will increase the prices, without increasing

the real value of commodities, if considered without reference to its foreign commerce. The celebrated writer, John Stuart Mill, in his "Principles of Political Economy," says, "The uses of money are in no respect promoted by increasing the quantity which exists and circulates in a country, the services which it performs being as well rendered by a small as by a larger aggregate amount. Two million quarters of wheat will not feed so many persons as four millions; but two millions of pounds sterling will carry on as much traffic, will buy and sell as many commodities, as four millions, though at lower nominal prices." For example, suppose fifty millions of dollars to represent the amount of the circulating money in a country, and that flour is worth five dollars a barrel, iron twenty dollars a ton, and other articles in proportion. If the amount of circulating money should be increased to one hundred millions of dollars, this last named sum would represent and perform the business, which was before represented and performed by the fifty millions. And the barrel of flour that before was valued at five dollars, all other circumstances remaining the same, may then be worth ten dollars. It would therefore appear that flour had doubled in value. But it is not so. It is only a nominal increase of value. For now that the barrel of flour is worth ten dollars, that sum of money will not produce more of other commodities than five dollars did before, as all other commodities will have risen in about the same proportion. With fifty millions of circulating money, the barrel of flour represented and was worth five dollars. With one hundred millions of circulating money, it represents and is worth ten dollars. And all other articles are represented in the same proportion in

these two conditions of the amount of money in circulation. In the one condition, no more of any article could be purchased for one dollar, than in the other condition could be purchased for the half of it. This explains what is meant by the statement which seems so difficult of comprehension to some persons, that to those who live on salaries or wages, the effect of an artificial inflation of prices, by an increase of the amount of paper money in circulation, is to diminish the quantity of the necessities and conveniences which they can provide for their families. So that it may with propriety be said, that one dollar a day is not better wages for a laboring man, than fifty cents a day, unless it will buy more of those necessities and conveniences.

An increase of the amount of money in circulation, and the consequent increase of prices, are always gradual. The circumstances that regulate the current or market prices are so various, that the true cause of any change cannot always be traced at once. Supply and demand regulate prices when the amount of money in circulation is uniform. But supply and demand come through so many channels for articles in general use, that the extent of either is not always readily perceived. Any increase of prices is most commonly ascribed to an increase of demand, as compared with supply, that being the usual cause of the rise in the prices. When prices rise in consequence of an addition to the amount of money in circulation; it is because the increased supply of money furnishes additional power to purchase until it produces a demand that will carry all articles up in price to their fair value, in proportion to the extent of the increase of money in circulation.

The effect of an increase of the amount of money in circulation on the price of any given article may be, after a time, counteracted or qualified by an increase of its supply, or by a reduction of the demand for it. For example, iron, which has been worth twenty dollars a ton, should be worth about forty dollars, if the amount of the circulation has been doubled, all other circumstances remaining the same. But the foreign manufacturer, instead of obtaining an increased price, may prefer to increase the supply of his iron. Twenty dollars a ton is, perhaps, more than he can realize for it at home, where the greater part of the iron he produces is sold. Therefore, instead of getting a higher price for a small quantity, as the Dutch did formerly, for their spices, he may prefer to increase the quantity of iron. He may continue to increase the quantity so long as it will sell for twenty dollars. In such a case, the increase of the amount of money in circulation increases the supply of iron from abroad, instead of increasing the price of it. But how is it with the manufacturer of iron at home? What is the effect on his business? He is differently situated. Twenty dollars a ton was a remunerating and satisfactory price to him before the amount of money in circulation was increased. But with the increase of money, the prices of all the elements that make up the cost of his iron have increased, and nearly forty dollars a ton would now be required to remunerate him for it as well as twenty dollars did before. He must therefore stop his works, and leave the foreign manufacturer to supply the whole quantity of iron needed for the consumption of the country. The price of the elements that make up the cost of the foreign iron remain the same as before. The paper

money for which it is sold, being redeemable in specie, the proceeds of the iron can be returned in gold or silver. The home manufacturer, too, could exchange the proceeds of his iron for gold or silver; but it would be worth no more to him than the paper money, unless he wished to send it abroad to purchase and import foreign iron for the supply of his customers, instead of manufacturing it. But this benefit of a cheap supply of iron will not be of long continuance. The increased demand occasioned by stopping the manufacture at home, raises the price abroad, and the foreign manufacturers, perceiving that they have the market to themselves, gradually increase their prices, and realize extravagant profits. Thus the actual effect produced by increasing the amount of money in circulation, and thereby enhancing the prices of all articles of sale and commerce, is to increase the profits on foreign importations, and the inducements to extend them; while at the same time, it injures the domestic manufacturer, and oppresses the industry of the country, by increasing the expense of the labor, and of the cost of manufacturing.

To suppose the amount of the circulation of a country increased from fifty millions to one hundred millions, is apparently, to suppose an extreme case. But additions of twenty to fifty per cent. to the amount of paper money in circulation, not unfrequently occur, when the currency consists of paper payable on demand in specie, as it does in the United States. It is not usually an immediate increase. It may take a year or more to effect it. But it sometimes happens within a period of a few months. The amount of the loans of the Bank of the United States on the 1st of September, 1834, was $47,059,498, and on the 1st of June,

1835, was $63,649,646, being an increase of more than thirty-five per cent. in the short period of nine months. The increase in the local banks, during the same period, was probably as great. The effect of the increase of paper money at that time upon prices, and the consequences resulting from it, which occurred a year or two later, will not soon be forgotten. The published statements of all the banks in the United States, show that their bills in circulation had been increased from fifty-eight millions in 1843, to about two hundred and four millions in 1854; and that at this last period, there was less than sixty millions of specie in all the banks of the country.

The state of trade in any country may be such that specie flows into it. That is, prices are low, rendering it profitable to export merchandise, and diminishing the inducements to import it. There is then a good demand for the products of the industry of the country for consumption and for exportation, and more or less specie is imported in return for the merchandise exported. But as the specie is not used for currency, it accumulates in the banks, forming the basis of an increase of the issues of their bills, which are put in circulation by loaning them freely. This facility in obtaining these loans stimulates the merchants and traders to increase their purchases of merchandise and other property. As the business of trading increases, prices rise, and a larger amount of money is needed. The banks are enabled to add still more to their loans, and to keep still more of their bills in circulation. Borrowing money with facility, traders are less anxious to realize the money for their merchandise by selling it. They prefer to pay their debts by creating new ones in the

shape of bank loans, in the expectation of obtaining higher prices at some future time for their merchandise. Many become speculators, and, buoyed up by loans at the banks, are disposed to purchase the merchandise of others, rather than to sell their own, expecting thereby to force the consumers to pay them higher prices. The advance in prices at first encourages the manufacturer to increase his work. But he soon finds that the prices of all the materials which he uses in his manufacture have increased in proportion, and therefore, that he gets no more profit than before. But not so with the importer of foreign manufactures. His merchandise costs him no more than it did before. The high prices will therefore induce him to increase largely the amount of his importations. Those high prices will, in the end, diminish the consumption of many articles, by raising their value beyond the reach of the many, who live on salaries and wages. Large stocks of merchandise will thus be accumulated. At the same time, the indebtedness of the merchants to the banks has increased. The amount of paper money, that is to say, the indebtedness of the banks to the community, will have been most dangerously enlarged. This speculative inflation continues and augments, until at last, the conditions of trade are entirely reversed. Prices being high, it is profitable to import merchandise, and the inducements to export it no longer exist. More or less specie, is therefore exported in return for imported commodities. This export of specie may continue for some time before its effects on the condition of the currency become serious. But all the coin that can be spared will, in time, be sent away, and

the demand will then come upon that which is absolutely necessary to the banks to sustain the circulation of their paper. All the resources of the banks will then be required to meet the demands against them. Those resources are the debts due from the merchants and traders, and they must be paid. But to pay them, these merchants and traders must either sell their merchandise, or borrow money outside of the banks on the best terms they can.

Whether the currency of the country consists entirely of the precious metals, or is a mixed currency, consisting in part of paper money payable in specie on demand, under the same circumstances the same effect would be produced by any great increase or reduction of the amount of money in circulation. But there would be a great difference in the intensity of the crisis in these two cases. Suppose, for instance, the whole amount of the currency to be two hundred millions of coined money. The gradual abstraction of twenty millions for exportation would produce effects that might not be greatly perceptible. But, if the currency consisted of that amount of bank paper convertible on demand in specie, and the whole amount of specie to support this circulation did not exceed sixty millions of dollars, the abstraction of twenty millions of coin to export, if the whole amount of the currency was reduced in any thing like the same proportion, would produce a reduction in the prices of property of all kinds that would render bankrupt a large portion of the business community. Money would become so scarce, and the value of property would be so much reduced, that many debtors would not be able to obtain money upon any

terms to pay their debts. Many commodities would be exported to furnish funds to diminish the foreign indebtedness. For, until that indebtedness was settled in some way, either by the shipments of specie, or of merchandise, or by the failure of the debtors, the demand for specie and the contraction of the currency would continue.

Of all the articles that supply the wants of a well-furnished community, the proportion derived from foreign commerce is small. But in the United States, the foreign commerce, small as it is in comparison with the internal trade, now regulates and controls, through its effects upon the currency and the banks, the prices of all articles throughout the whole country. The object of trade and commerce is to supply the various necessaries, conveniences, and luxuries of life; and, whatever can be obtained cheaper from abroad, will be procured there. If the cost of production at home is enhanced by an increase of currency, the quantity of articles that can be obtained cheaper from abroad will be increased, and the quantity of articles that can be produced cheaper at home will be diminished. This will continue and increase, until it creates such a demand for the precious metals to export for the payment of imported merchandise, as to diminish the supply of the circulating medium of the country. Assuming the exports of the country to be equal in value to two hundred millions of dollars, (including the expenses of transportation or freight when in the vessels of the country, and the profits on the sales abroad,) this two hundred millions of dollars is the amount of foreign productions that can be imported with benefit to the country. Any extent

of importations beyond it makes an indebtedness in specie, which must create a demand for the precious metals of the country to export. The intensity of that demand will control the amount of the currency, and the prices of all the property of the country, which amounts to many thousands of millions of dollars.

There is a distinction between money in actual circulation from hand to hand, which is usually denoted as "*currency*," and wealth that is not circulating, but is locked up in the possession of individuals, in various shapes of valuable securities, or deposits in banks, or even in actual coin, which is denoted as "*capital*." It is only the money in circulation that affects prices. Hence it may and does often happen, that there is an abundance of "*capital*" in the country, while the money in circulation, or "*currency*," is not sufficient for the wants of the community. Much of this capital can at any time be changed into currency, by using it for the purchase of merchandise or other property. During any great money pressure, or scarcity, there are usually large amounts that remain quietly on deposit in the banks, for which the bills of the banks or specie could at any time be demanded. This abundance of locked up money or "capital" will always exist more or less, when, from any causes, those who possess money are deterred from investing it in trade, or other adventurous channels, or can find occasional opportunities to loan it at exorbitant rates. When any such causes exist, capitalists are more and more indisposed to invest money in commerce or manufactures, or public works, and they are more and more resolute in keeping it locked up in bank deposits, or valuable securities, and sometimes in coin, waiting for some

favorable opportunity to invest it. This state of things may produce what, at first sight, seems an absurdity, a community growing more straitened for money, at the very time when the property and wealth in the hands of money-lenders and capitalists are daily increasing.

Nothing can be more unreasonable, or further from the truth, than the common statement of speculators and money borrowers, that the amount of paper money, which can be used as a substitute for the coined money of a country, is so much gain to the community. They argue that the coined money, for which it is a substitute, will then become so much additional capital that can be applied to support some new purpose of domestic industry. If the currency of a country consisted wholly of coined money, and an addition was made to it of an amount of paper money, it would, to the extent of that addition, increase the volume of the currency, and thus would occur a corresponding rise in the prices of articles. The effect of this would be to increase the importation of merchandise from abroad, until a demand for specie were produced. Then the coined money would be gradually carried off to pay for the increase of imported merchandise, to the extent of the addition of paper money that had been made to the currency. If the coined money of the country is not needed at home for currency, in consequence of paper money being substituted for it, it can, in the existing condition of things, only be used to injure the labor and industry of the country, by being exported to pay for importations of the products of foreign industry. For the addition of paper money to the currency only creates a corresponding

advance of prices, and, consequently, an increase of foreign importations.

If the precious metals are not used for currency, they will accumulate in the vaults of the banks, when they are not wanted for export. There they will form the basis of a greater issue of paper money, which will further depreciate the currency. In such case, by inflating the prices of all articles, they will give a greater impetus to the import of foreign commodities. It is not desirable that the banks should hoard up specie in their vaults, and issue for every dollar of it five or ten times the amount in their paper promises to pay, or, in amounts placed to the credit of individuals as deposits, which may be changed at any time into bills for circulation. The banks have now too much to do with the imports and exports of the country. They will continue to have this direct influence upon foreign trade, and the country will continue to be overstocked with foreign merchandise to the great injury of domestic industry, until the currency of the country becomes more substantial, — until it consists more of the precious metals, and less of paper money. When the precious metals are used for circulation, and the country has a sound, substantial specie currency, sufficient in amount for the purposes of trade, all business, both foreign and domestic, will be regulated on more just and more correct principles. We shall then cease to hear complaints of the tariff, or of foreign interference with native industry; and the banks will find their true place, and become the servants, not the masters, of the money and currency of the country.

When cotton and breadstuffs, and the exports of

the country generally, are sent abroad, and their proceeds are invested and returned in foreign merchandise, the surplus productions of the industry of the country are exchanged for the surplus productions of the industry of other countries. The cotton and corn and flour and manufactured goods of the United States, the iron and cloths of England, the wines and silks of continental Europe, and the teas and spices of China and India, are interchanged. Thus is created a trade between those different countries that is useful and profitable to each one of them. If only 500,000 bales of cotton are manufactured in the United States, the remaining 2,500,000 bales of the cotton crop would be valueless without foreign trade. So with the surplus quantities of the iron and cloths of England; they would be valueless there without foreign trade. Therefore, to exchange the surplus products of the industry of the United States, which would be valueless at home, for the surplus products of England and other countries, which, without a foreign demand, would be valueless in those countries, is an advantageous and profitable trade.

But the foreign trade is no longer useful or profitable when it requires the exportation of the coined money which is necessary and useful at home for currency. When the importations of foreign merchandise are paid for otherwise than by exchanging for them the products of the industry of our own country, they come in competition with, and are an injury to our domestic industry.

The very commencement and origin of trade and commerce is the exchange, which is made between individuals of the products of their respective labor,

by which their various wants are supplied. Subsequently occur the exchanges which take place between nations, of the surplus products of their industry. The mechanic in a country village, whether with or without the use of money or currency, obtains the necessary supplies for his family, by exchanging the products of his labor with his various neighbors. When, instead of continuing to rely alone upon his industry, he obtains the supplies for his current wants by parting with his furniture, or the tools of his trade, or the money which he has saved up and laid by in years of toil, he is not more improvident and unwise than is the nation that exports its coined money to pay for importations of foreign merchandise. Sickness may oblige the mechanic to do this, and a deficient harvest, or the worse evil of war, may oblige a nation to export its coin to pay for the necessary supply of breadstuffs for food. But, in both cases, they are vast misfortunes.

It is impossible, under the present system of currency and banking in the United States, that any large loans can ever be negotiated at home. The prospect, only, of a large loan would at once produce a panic in the money market. The banks would immediately stop discounting, to be prepared to pay back their deposits. By doing so, they would make money so scarce, and raise the rates of interest so high, that the capitalists, who own those deposits, could do better with their money than to take the proposed loan.

The moment any accumulation of money occurs, it is deposited in the banks, and is used by them to increase their loans. The majority of the bank direc-

tors are usually active business men, and the largest borrowers of the banks. It is for their interest to prevent large government loans being negotiated at home, as they know, in that case, that the banks must provide the money by reducing their loans. By this reduction of the loans of the banks, money can be rendered so scarce and the rate of interest so high at home, that the large loans can be obtained on better terms abroad.

Parties who wish to negotiate large loans, whether for the government or for corporations, very naturally and properly endeavor to borrow the money where they can get it cheapest. There are, however, serious objections to a system of currency, which prevents the accumulation of uninvested money, and the power to take large loans at home. Under the present system of currency united with banking, an accumulation of unemployed capital cannot occur in ordinary times. For, as fast as money accumulates in the possession of individuals, it is deposited in the banks and loaned by them. If merchants and traders will not borrow, brokers and stockjobbers are always ready to take it, and to give stocks as security, often the stocks which they buy with it. As soon, therefore, as these deposits accumulate, they are loaned by the banks; and the more the banks loan, the higher prices will rise, and consequently new loans will be the more in demand.

When the government of the United States accumulated the surplus revenue of forty millions of dollars, which was afterwards divided among the States in 1837, it was deposited to the credit of the government in banks, and by the banks loaned to individuals and

corporations. The more the government deposits increased, the more the banks increased their loans, and the more prices rose. The imports, and consequently the amount of the revenue, increased with the rise of prices. At the same time, and by the same causes, the uses and demand for money, and the demand for specie to export, were increased. When the government called on the banks to pay back the public deposits for distribution among the States, it was impossible for them to do it. They had loaned it out to parties, who had invested it in various ways, a large proportion of it in government lands. So large an amount could only be paid back gradually and slowly, as it had been received when collected by the government. The result was, that before the last instalment was paid to the States, all the banks throughout the country stopped payment. The change in the value of property then became so great, that many of those banks that had extended their loans with the government deposits, lost all their capitals, and were never able to resume again. There were other causes combined at that time to increase the difficulty. One of them was the sudden check upon the negotiation of loans abroad, which had, for some time previous, been taken with great readiness, causing large importations of foreign merchandise. But no deficient harvest in Europe occurred in 1837 to aid the payment of that indebtedness, as happened in 1853.

The exports of the domestic productions of the United States for the year ending June 30, 1854, in merchandise amounted to $213,985,236, and in gold and silver to $41,197,300. The greater part of the amount exported in gold and silver, if not the whole

of it, was a clear loss to the country, because the net amount of the importations of merchandise, which were $274,134,733, could have been reduced more than forty millions of dollars without injury or inconvenience to any one. The reduction of the imports of that year to the extent of forty millions, though we did produce in California that amount of gold, would have furnished to the manufacturing industry of the country more protection than could possibly be obtained from the national government by any tariff legislation.

If the government had made a loan in Europe during that year for twenty millions of dollars, it would, in effect, have added that, or a greater amount, to the importations. For, with paper money for currency, there was no use for specie at home, and the loan of twenty millions would have only served to pay for *at least* that increase of importations. If there have been of late no such loans made by the government, there have been many made by railroad companies and other corporations to a very large amount. The great increase in the importations for the last three years, and the excess of them over the exports of the same years were caused, in part, by those loans, and the results are evidence of the effect produced by increasing the amount of imports. In the latter part of the year 1853, it became difficult to negotiate corporation loans abroad, and consequently, the export of specie was increased. Had it not been for the deficient harvest in Europe, which caused a great demand for, and a great increase in the export of breadstuffs in the autumn and winter of 1853, the demand for specie would have been so intense as to have

caused much distress in the United States. The indebtedness, arising from the large importations, was so great, that the immense and unusual export of breadstuffs was paid for without any import of specie, or even interrupting its export. As the amount of money in circulation was not diminished by the export of specie, in consequence of the creation of new banks and the increased issues of paper money, prices were sustained, and the excessive importations continued. The export of specie was not diminished until the autumn of 1854, when the banks, at last, were forced to reduce their loans and their circulation to an extent that produced much distress and bankruptcy.

The loans negotiated abroad may have been convenient at the time, to the parties who borrowed the money. But all that was received for them, and all that was brought into the country in consequence of them, was an increased quantity of foreign merchandise to be sold in competition with the products of our domestic industry. All that remains now of those loans is the obligation to send back the amount of them at some future time. In the interim, we must transmit an "annual tribute" for the interest on them. It is estimated that this annual tribute now amounts to about twenty millions of dollars, and an examination of the official tables of the annual imports and exports will prove this to be not far from the truth.

It may be said that the railroads exist, which those loans assisted to build. But those roads would have been as effectually and surely built without those loans. No money was imported for the loans. The *money* that was invested in the roads was all furnished at home, and so were the labor and materials, excepting

only the iron rails. And there is iron enough in the country to have furnished them. The roads were partly built, and in most cases in actual use, before the loans could be negotiated abroad. The loan for the Western Railroad in Massachusetts, with the guarantee of the State, was negotiated in England at five per cent., a lower rate than would satisfy capitalists at home at that time. This was a consequence of the disturbed state of the money market produced by the high prices and excessive importations, which this and similar loans had assisted to cause, whereby capitalists at home, in the course of that year, were enabled to get one or two per cent. a month for their money. Is it to be supposed, that, with taxable property in Massachusetts, which, by the returns of the valuation committee of 1851, amounts to nearly six hundred millions of dollars, the Western Railroad, the first cost of which was about seven millions of dollars, could not have been finished but for that loan; and that the money to build it ought not to have been obtained without going to England! Very large amounts lay on deposit in the banks at that time, to the credit of our money-lenders, capitalists, and merchants. With a substantial and sound currency, every dollar of that loan, and of all the loans of the national government for the last twenty years, would have been readily taken by our own capitalists. But with the constant fluctuations of currency occasioned by the comparatively unrestricted power to issue paper money, every year presents the capitalists and money-lenders of the country with opportunities to loan money at much higher rates, and often to get double the legal interest, or even more for it. The

parties in England who took that loan, had so little confidence in the paper money of our currency that they required the amount of the loan to be expressed in the currency of Great Britain, and the principal and interest to be paid in London in the currency of Great Britain.

At the worst of times, there is always sufficient money for everybody who needs it to pay their debts, if they will give enough for it, and can give satisfactory security. But when the owners of money can make so profitable a use of it as to loan it at one per cent. a month, or more, the banks must be prepared to meet the demand for it, by obliging their customers, to whom they have loaned it, to pay it back. To do this, those customers are often obliged to borrow it at any exorbitant rate of interest that may be required.

It may be for the pecuniary benefit of a mere possessor of accumulated capital, that the whole credit and enterprise and industry of the country should be at the mercy of a "cheap currency," which admits of such frequent convulsions and fluctuations as may enable him to obtain exorbitant profits on his capital. But it is a remarkable circumstance, that an intelligent, commercial, and manufacturing community, with extensive resources, and with abundance of the precious metals, which their enterprise causes continually to flow in upon them, should cherish a system of currency that forces those precious metals to be used for their injury, instead of being used *as currency* for their advantage and benefit. Most of the gold that has been brought into New York by the steamers from California, is almost immediately transferred to the

steamers for England, because it is more valuable for remittance to Europe, where it is used for currency, than for any purpose in the United States, where paper money for currency is preferred.

Advantages of the Currency of the Precious Metals.

It has, at the outset, been remarked that the service which is rendered by the precious metals as a just standard of the value of property, can be rendered by nothing else with so much exactness and justice and convenience; that they are the only materials that can furnish a sound and substantial currency of uniform value. Whenever they are used for the currency of a country, the natural laws of trade will always regulate the quantity of them; and will dispose of any excess of them, without aid from legislation, and without inconvenience to the community. If the gold from California were used for currency, when the quantity in the country at any time became excessive, the same effects would be produced that were observed in Spain after the conquest of Mexico and Peru. The laws of commerce would now, as then, distribute the excess through other countries.

There would be no objection to sending the precious metals away, if the country at any time possessed as much of them as could be advantageously used. For the excess of them may then be, like the excess of breadstuffs or cotton, of more value to export. But so long as a valuable use can be made of them at home to furnish a sound currency, it is a clear loss to exchange them for the products of the labor of other

countries, to be brought home to compete with the products of the labor of our own country. There is one respect in which an excess of the precious metals in the country differs very materially from an excess of cotton, or of any other commodity. It is that a surplus of gold and silver may be laid by and reserved for use at any future time without expense or loss; whereas, most other commodities are injured or destroyed by time, and the bulk of many of them renders the care and expense of protecting them for a long period equal to their value.

Gold and silver cannot be considered an expensive currency in consequence of their waste or wear. It has been proved by careful experiments, that the loss, when in use for currency, by friction or wear, is less than half of one per cent. a year on silver, and does not exceed a half of one per cent. in ten years on gold.

The amount of money required to transact the business of a community, for which paper money can be substituted, is much less than is usually supposed by those who have not considered the subject. Financial writers variously calculate the whole amount required in an active business community, at sums varying between ten and fifteen dollars a head for the population. With a mixed currency, consisting only in part of paper money, still less would be required. Ten dollars a head would probably be a large estimate for the amount of paper that could be substituted for coined money without greatly depreciating the currency. The amount of paper circulation in England, Scotland, and Ireland, is less than forty millions sterling, equal to nearly thirty shillings sterling, or

little more than seven dollars a head for the population. In the State of New York, containing as active a trading and commercial community as can be found in any part of the world, all the bank-notes are supplied by the State, and registered and countersigned by a State officer. No bank, whether it be incorporated or organized under the general law, is allowed to issue any other notes for circulation. According to the official returns on the 30th of September, 1854, the whole amount of such notes furnished to incorporated banks was $19,300,963, and to banks organized under the general banking law, $24,661,572, making together $43,962,535; or about twelve dollars a head, for the population of the State, including the amounts held by the banks, and therefore not in circulation. There is probably no community in the world where paper money is so freely used as in the State of Massachusetts. Each one of its hundred and sixty-eight banks can have printed and ready for use as many notes as they please. The law allows them to be circulated to the extent of one quarter more than their capital, but attaches no penalty for exceeding that amount. The capital of the banks of Massachusetts exceeds fifty-six millions of dollars, which would allow an aggregate circulation of more than seventy millions of dollars. Some of the banks often exceed their proportion, but no notice has been taken of it, when the published returns have shown any of them to have exceeded the lawful limit of circulation. It appears by the annual official return for 1854, that there are nearly twenty-five millions of the notes of the banks of Massachusetts in circulation. A large amount, however, of each others' notes is returned as held by the

banks themselves. Moreover, there is always a large amount of notes issued by banks in the country, instead of checks, which do not really become general circulation, being merely transmitted for payments in large sums, instead of a check or draft, to gain the advantage of a few days in interest, and they are immediately sent into the Suffolk or some other bank in Boston, which acts as the agent of the country bank. There are, likewise, large amounts of bills at these agency banks in Boston, which have been redeemed, but not yet sent back to the country banks that issued them, and must therefore appear in the returns as circulation. Making these allowances, the whole amount of bills actually circulating among the people in Massachusetts, does not probably exceed twelve or fifteen millions of dollars, or about from twelve to fifteen dollars a head for the whole population of the commonwealth. This conforms very nearly with the issues of bank paper in the State of New York. If the actual amount of paper circulating in Massachusetts amounts to fifteen millions of dollars, since checks and drafts could be advantageously substituted for many of the purposes for which bank-bills are now used, it would not require more than ten millions of coined money, less than the product of California in three months, to supply a sound, uniform, and substantial currency in its place.

When stated in the aggregate, ten millions of dollars seems to be a large sum; but so the aggregates of all articles of general use appear. The number of barrels of flour consumed in Massachusetts in a year, seems enormous to one who has never reflected upon it. If they could be seen piled together in a mass, they would look as if there could not be found store-

houses in the commonwealth to contain them. Ten millions of dollars is only about ten dollars a head for the population, and is less than two per cent. of the amount of taxable property in the State, as returned by the last valuation committee, the amount of which was nearly six hundred millions of dollars; which estimates, being made for taxation, are known to be a low valuation. When the aggregate amount of the industry and of the property in Massachusetts is considered, the value of which must be measured by the money or currency in use, whatever it may be, the amount of currency required to perform so important a service seems small in the comparison. Every one has a right to claim that the money which measures that value, shall be of a character to perform the service in the most unvarying and the most exact manner; and, above all things, that it shall be as near an approach as is possible at all times to a *just measure.*

What would be the cost to Massachusetts of ten millions of the precious metals to use for currency, instead of paper money? If the $41,197,300 of gold and silver that were exported from the United States, during the single year ending in June, 1854, had remained in the country, at least one tenth part of the amount would have rightly belonged to Massachusetts with her extensive commerce and manufactures. This would have supplied nearly one half of the amount required in a single year. To the industry of Massachusetts, it would have been worth at the least, as much more, by the protection it would have given to her manufactures against foreign competition, by lessening, to that extent, the amounts of foreign importations, which it was sent abroad to pay for.

Again, let it be remembered that coined money is

not consumed by use, like flour or wines or silks, and many other commodities. Once in the possession of a community that will use it for currency, it remains to perform its important service again and again, not only for ourselves, but for future generations. Our manufacturers, by opposing the use of coined money, or encouraging the use of paper money in the place of it, encourage the importation of foreign manufactures. They then ask from the national government high tariffs to protect them against the evil effects of the paper money. The only inducement to use paper money is to render money more plentiful. This plenty cannot exist without causing a rise of prices; and for that reason it is popular. But the rise of prices will increase the cost of domestic productions, and encourage foreign importations. The only remedy for this effect of paper money is a high tariff. Without it, no benefit can be derived by the industry of the country from the increased amount of money in circulation and the high prices produced by it. Paper money and a high tariff should go together. With a low tariff, a substantial currency is indispensable to the industry of the country. With such a tariff, the only one that can hereafter be obtained, and with such a currency of real money, the industry of the country will take care of itself.

With the large quantities of gold that are constantly brought from California by the enterprise of the citizens of Massachusetts, there could not be any trouble or inconvenience in supplying, by degrees, the place of the present paper money with the precious metals. To avoid trouble and inconvenience, it ought to be done gradually, by a law to prohibit the circulation of any notes below the denomination of ten dollars,

after one year from the passage of the act. This would give the banks time to recall the notes of smaller denominations, and for the specie to be circulated to take the place of them.

In England and France, the two greatest commercial countries of Europe, paper money can hardly be said to exist, in the sense in which it exists in the United States. For the Bank of England and the Bank of France, both of which are so organized that those governments exercise great influence in their management, are not permitted to issue bills of a denomination so small as to be used in the every-day transactions of retail purchases and sales. In England, the lowest denomination of bills is five pounds, equal to nearly twenty-five dollars of our money; and in France, until recently, the limit was five hundred francs, nearly one hundred dollars of our money. The Bank of France has, within a few years, issued bills for one hundred and two hundred francs, equal to about twenty and forty dollars. The smallest denomination of bank-notes in England and France are too large for the common use of the people, their use is confined almost entirely to purposes of trade, or for transactions that require large sums of money.

Since the peace of 1815, the government has been constantly strengthening the currency of England, which had depreciated during the war. Specie payments were resumed. Notes of a smaller denomination than five pounds were abolished. And, when the Bank of England was rechartered in 1844, it was not intrusted with the unrestricted power to expand and contract the currency by its issues of paper money. Its issue of paper without a cash foundation, is limited to fourteen millions of pounds sterling, equal to about

sixty-eight millions of dollars, and it is required to keep that amount specially invested in government stocks. The Bank of England must have specie in its vaults for every note issued for circulation beyond that sum. Thus it has no interest in extending the issue of paper beyond the fourteen millions, as it could not loan or invest it, but would be obliged to keep the amount on hand in bullion or coin. No bank organized since 1844, is allowed to issue any bills for circulation, and a limit is fixed to the circulation of all banks organized before that period.

Paper money has been sometimes used in times of war, for the purpose of giving to government the control and use of the real money of a country. It exists in Austria and some other despotic countries, where the governments can control it, and where they control all property. But it is only in the United States, that communities can be found willing to delegate to individuals and to private corporations the despotic and sovereign and irresponsible power of furnishing and controlling the currency, which measures the value of all the property of the country.

It seems strange that any community, aware of the nature and the effects of paper money, should be willing, for any consideration, to transfer to private individuals, or to corporations, which are in fact managed by private individuals, the right to furnish for the currency of the country any thing but *real* metallic money. It is true, that the direct cost of paper money is only the expense and the trouble of the printing and the paper; but wherever it is used, it regulates the price of all the saleable property in the community. In the United States, paper money is at variance, not only with the fundamental law, but with the policy

of the national government. All the eminent statesmen of the country have evidently considered the system of paper money as one which was only to be tolerated for a time, and that we should, at some early period, come back to the constitutional currency, at least for general use among the people. Mr. Webster, in a speech delivered more than twenty years ago, said, "Of all the contrivances for cheating mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilize the rich man's field with the sweat of the poor man's brow." And on another occasion he said, "My proposition would be, that banks should be restrained from issuing for circulation bills or notes under a given sum, say ten or twenty dollars; this would diminish the circulation, and consequently the profits, of the banks. But it is of less importance to make banks highly profitable institutions to the stockholders, than that they should be safe and useful to the community." The use of paper money was long since discontinued by the national government, but it has been permitted, and indirectly protected and sanctioned, by most of the State governments, though it has never been directly recognized or legalized by any of them as real money. Paper money is an excrescence which has grown up illegitimately on the body politic; but, as it is based on false principles, it cannot be expected to endure. Either its evils will continue to augment until an enlightened public will no longer bear them, or, an intelligent, judicious, and gradual change to a more substantial, and to a more just system will be introduced. By the report of the Secretary of the Treasury of the United States to Congress, of the condition

of the State Banks, dated May 6th, 1854, their circulation was $204,689,207. In an estimate for November of the same year,[1] the circulation is $171,417,000. Showing a reduction of more than thirty-three millions, which fully accounts for some portion of the recent scarcity of money and commercial distress.

---

[1] Number of banks, bank capital, bank circulation, and specie of each State, November, 1854. From the Boston Post of February 15, 1855.

State.	No. of Banks.	Capital.	Circulation.	Specie.
Maine	67	$6,723,000	$5,317,000	$1,200,000
New Hampshire	38	3,576,000	3,000,000	180,000
Vermont	41	3,570,000	4,000,000	200,000
Massachusetts	168	56,820,000	24,300,000	3,960,000
Rhode Island	87	17,712,162	5,060,000	312,000
Connecticut	65	26,565,279	6,640,000	800,000
New York	280	84,076,022	31,000,000	14,200,000
New Jersey	30	4,447,000	4,800,000	750,000
Pennsylvania	55	19,712,371	15,000,000	6,000,000
Delaware	9	1,440,000	1,000,000	250,000
Maryland	26	10,515,016	4,300,000	3,000,000
District of Columbia	5	1,282,300	350,000	300,000
Virginia	55	13,448,600	12,000,000	4,000,000
North Carolina	27	5,011,678	4,600,000	2,000,000
South Carolina	20	14,336,735	6,800,000	1,000,000
Georgia	18	7,041,190	5,000,000	1,500,000
Alabama	3	2,300,000	2,000,000	800,000
Illinois	25	3,714,000	2,000,000	350,000
Indiana	41	3,785,108	5,300,000	1,500,000
Kentucky	33	11,330,000	7,000,000	4,000,000
Louisiana	8	14,792,600	5,500,000	5,000,000
Michigan	5	1,200,000	600,000	150,000
Mississippi	1	100,000	150,000	50,000
Missouri	6	1,208,750	2,200,000	1,140,000
Ohio	58	6,146,141	7,500,000	2,444,000
Tennessee	33	10,415,197	4,900,000	1,800,000
Texas	1	322,000	300,000	100,000
Wisconsin	22	1,250,000	800,000	240,000
Total	1,227	$332,751,154	$171,417,000	$57,226,000
" April, 1854,	1,185	303;989,000	188,000,000	60,000,000
" July, 1850,	822	216,000,000	137,000,000	52,000,000
" April, 1849,	778	212,000,000	120,000,000	48,000,000

The circulation and specie of the Southern and Western States are in part estimated.

It is absurd to suppose, that the prosperity of the United States is the result of the use of paper money, as some of the advocates and admirers of it have asserted. The truth is, that the country has prospered in spite of such money; and the energy and enterprise of the people have restored prosperity after convulsions of the currency, occasioned by the use of bank-notes, that would have prostrated for a time any other country. Paper money may have been beneficial when the country was drained of its wealth and desolated by the effects of long and expensive wars. But forty years of peace and prosperity, that has only been interrupted by violent contractions and expansions of the currency, have increased its wealth to a prodigious extent, leaving no apology for a "cheap currency," which must from its nature constantly fluctuate in value and quantity, and operate with injustice upon all the pursuits of industry. The intelligent and skilful speculator may find his advantage in watching the changes of such a currency, to secure the profits of the delusive prosperity during the times of expansion, and he may avoid the losses occasioned by the contractions that follow them. But the public receive no benefit from these fluctuations of currency. Scotland is often referred to as evidence of the successful use of paper money. If the interest of the stockholders of the banks is the only thing to be considered, the success of the Scotch banks would be satisfactory. A bank failure has rarely occurred there. But if the condition of the population, and of the ownership of the landed property of Scotland is the result of the use of paper money, it would not commend the system to our legislators. Probably fewer than

twenty individuals possess the fee of more than three quarters of the whole territory of Scotland. It is said of one of them, that he can ride ninety-nine miles in a straight line without going off his own estates. The laws of primogeniture and entail originated this evil, which the use of paper money may have protected and extended. There are in Scotland men of as great wealth and learning and accomplishment as can be found in any part of the world. But the masses of the people, particularly those who are crowded into the narrow streets and closes of Edinburgh, Glasgow, and other large towns, are poor, ignorant, and degraded beyond any thing that an American can conceive of.

The suspension of specie payments in Great Britain, in 1797, may have been necessary to enable the government to use the coin of the country to pay the expenses of the war on the continent; and a similar necessity may exist again, if the present war with Russia is continued. Paper money was useful in the United States, during the war of the Revolution, when the resources of the country were exhausted by desolating and expensive hostilities, which rendered it impossible to provide a more substantial currency. The profitable commerce of the country, during the twenty years that followed the peace, and the adoption of the federal constitution, might have supplied a specie currency without inconvenience, which would have secured a permanent benefit by placing the prosperity of the country on a firmer basis. The suspension of specie payments, during the war of 1812, would certainly have been neither expedient nor necessary, if *real money* had been previously introduced into the circulation

of the country, in the place of bank paper. The federal constitution prohibits the use of paper money for currency, but, thus far, selfishness has triumphed over that provision of the constitution.

The Practice of Banking, and Effects of the Currency in New England.

There are two errors with regard to currency or money, which have been diligently pressed upon the public, by those who advocate the use of paper money, and upon which all their arguments in favor of it are based. The first is, that paper money, so long as it is redeemable on demand in specie, *cannot* depreciate, because of the demand for specie which its depreciation would produce. But in fact it does depreciate, and the remedy for that depreciation, by which its value may be restored, is the demand for specie. The operation of that demand, when it occurs, drains the country of its coin, checks suddenly all bank loans, reduces the amount of money in circulation, and produces a decline in the value of all kinds of property. It usually brings dismay and ruin to many, particularly to the enterprising and industrious of limited means, who have been tempted to extend their business by mere appearances of prosperity produced by the increase of paper money, and the consequent depreciation of these paper values.

The second error is, that, by the use of paper money for currency, the coined money of the country is so much additional capital to be invested for the benefit of the industry of the country. In truth, it will be

found that the coined money, when paper money is substituted for it, is of more value to export. And it always is exported to pay for the importations of the products of foreign labor to compete with the products of domestic industry; thereby depriving home industry of any benefit from the rise of prices caused by the additions of paper money to the currency.

Another favorite assertion made by those not familiar with the subject, or by those whose interests have blinded their powers of reasoning, is that, as to the doctrines of money or currency, experience is better than theory. With all deference to the teachings of a true experience, may not one presume to ask whose experience is referred to as a guide? because the experiences of men differ. Every one is apt to refer to his own particular experience. In a legislative assembly, an intelligent agent of some corporation, in the absence of a better argument, announces that he is content with experience, and those who please may go back "to the primary school of theory." But what is his experience? He may be receiving large salaries for different agencies, and may well be content with that experience, particularly when it leaves him leisure also to attend to the business of legislation. At the very moment when one of these agents was expressing in the legislature at Boston his satisfaction with his experience, during a discussion of the currency question, the four hundred workmen employed by one of the corporations of which he was the agent, were on a strike to express their dissatisfaction with the value of money, and discontent with their experience, because it differed so much from the agreeable experience of their immediate employer. To re-

fer again to Scotland, where the use of paper money is said to have been most successful, we have noticed how different is the experience of some twenty individuals, who possess the fee of more than three fourths of the whole surface of the land, from that of the masses of the people. The proprictor of the estate before mentioned, who can ride nearly a hundred miles in a straight line without going off his own grounds, might be expected to prefer his experience to any theory, unless he possesses less than the usual degree of selfishness. For him, the paper currency of Scotland may have proved itself "the most perfect in the world."

In fact, the truth of any theory must always be tested by the light of experience. If the theory is sound and true, it will harmonize with experience. It may occasionally happen, that the prophetic wisdom of a Newton may suggest true theories in advance of facts afterwards explored. But the ordinary course of a true settlement of principles and theories is by a careful examination of known and well-ascertained facts; and such theories are to be respected as guides and constitutional laws for future action. Whenever the naked argument of the superiority of experience over theory is used, it is too often prompted by the dictatorial spirit of ignorant conceit, or by some interested motive.

It is often said that the United States is not yet rich enough, — that it does not possess sufficient capital, to have a sound and substantial currency. If this means that there is not sufficient *real* money in the country to conduct its business, it is true, and it will continue to be true, so long as the currency of the

country consists, as it does now, of paper money issued by the banks. The capital or property of the country has accumulated quite sufficiently to constitute the nation one of the first class in wealth. The only difficulty is, that too small a proportion of the property of the country consists of *real money*. An ample, uniform, and constant supply of money or currency to conduct business, is essential to the highest prosperity of an industrious people. When that currency consists of the precious metals, it is one of the most useful, and one of the most valuable to the community, of all the different kinds of property that can exist in a civilized and commercial country.

It is common to speak of the amount of money invested in any enterprise. But, in reference to any enterprise within the country, the amount of money expresses only the value of the labor and materials that have been invested. The money can only be exchanged for them. It is not consumed, but remains in the country to perform its useful functions again and again. It is only when the money is exported to pay for the products of foreign labor, that it can be said to be consumed, or used, or lost to the country; particularly, if it is exported to pay for articles of mere luxury, that are consumed by use without adding to the wealth of the country. So far as paper money can be substituted for it, the coined money becomes useless at home, and will be exported. The paper money, that supplies its place, will be constantly fluctuating in amount, as the interest or convenience, the confidence or the fears, of those who issue it may dictate. It therefore affords an unstable and unjust standard by which to measure the value of property. It is as if

the bushel, the gallon, the pound weight, and the yard measures of commerce were by law required to be constructed of such materials that their capacity, weight, and measure were invisibly affected by the wonderful electrical changes which are always taking place about us, and constantly expanding or contracting their capacity or solidity. In that case, Professors Silliman, Pierce, Agassiz, and a few other scientific men, might understand what they were about when making purchases or sales. But to the rest of the community, all transactions of trading would prove only a modified sort of lottery, in which the adventurers would be quite at the mercy of the managers, or, of the accidental condition of the atmosphere. If paper money is ever useful to a country, it can only be in great emergencies; and it should be reserved as a resource to supply the means for the defence of the country, when other resources are exhausted. At such a time, it may be used for the business transactions within the country, to release the coin from that service, so that it may be used by the government in the exigency for the common welfare.

In the applications to the legislature for new bank charters, the principal argument that is always urged is, that the existing banks cannot furnish all the loans or discounts that are asked for. An increase of the bank capital to the greatest extent would not relieve that difficulty. For the increase of the bank loans would only cause an increase of currency, and a rise of prices, and, consequently, a still greater demand for money. The creation of new banks and the increase of bank capital is not a creation of money. So far as it consists of real capital, it is only investing funds

that are already in existence, and employed in some other way, in a new company, under the control of a certain set of persons for banking purposes. Most business people, particularly those who are inexperienced, or those who are most enterprising and sanguine, are limited in the extent of their business only by the extent of their capital and the additions they can make to it by credits obtained at banks and otherwise. With any possible amount of banking capital, the demand for bank loans would be unlimited, and beyond what could be satisfied, except occasionally, for short periods, when credit has been extensively impaired by one of the periodical depressions of business occasioned by fluctuations in the currency. It will always happen that, on discount days at the banks, the amount of money applied for greatly exceeds the amount that can be properly loaned.

The managers of a bank ascertain from experience, that the aggregate amounts of the *circulation* and of the *deposits* of the bank, though constantly varying, are very seldom diminished below a certain average. Therefore they can usually loan with safety a portion of the funds derived from these two fluctuating sources. It is partly from the loans made of these funds that the profits are derived beyond the interest on the capital of the bank, to pay the current expenses, rent, salaries, State tax, and something more than simple interest to the stockholders. The great defect in this practice of banking is the inducement it holds out to the banks to increase, in every possible way, the amount of these fluctuating funds derived from the circulation and the deposits, and upon the faith of their continuance, to loan as large an amount of

them as possible. They are thus enabled at the same time to gratify the customers of the banks with liberal discounts, and the stockholders of the banks with large profits. But in doing this, they often encourage speculation and high prices at a time when, for the security of the banks and the protection of the public, they should be endeavoring to counteract them.

It is often the case that the directors, who manage the banks, are among the largest borrowers of its funds. The speculation and high prices which they have encouraged, cause large importations, and consequently a demand for specie, which is sure to accompany or to follow a period of commercial excitement. The specie in the banks then rapidly diminishes. Every dollar that is paid in is required to meet the demands against the bank. All discounts are stopped, and the most rigid contraction of loans is necessary and unavoidable. It is at such a time, when the business community most need bank accommodations, that the funds derived from the circulation and the deposits are reduced to the lowest point, and that the loans, which have encouraged speculation and produced the high prices, must be paid back. No blame should be imputed to the banks, or to their directors, for the inconvenience and distress which this causes. They have consulted only the interests of the banks. In doing so, they were true to the system. But it is a defect in the system, that it should be for the interest of the banks to extend their loans, and that they should possess the greatest power to do so, at times when the public good would be promoted by reducing their loans. The interest of the banks is at variance with the public interest. The customers of the banks sustain the loss,

whilst the banks have had the profit. At the same time, it must be admitted that the banks could not do otherwise for their own safety than to insist on the payment of all debts as they become due. The banks will presently be relieved by the sacrifices which their customers are obliged to make to meet their engagements under this evil and mistaken system.

Every business man who owes money to the banks, at those times when it is absolutely necessary for their safety to reduce their loans, should be ready to make every possible effort to fulfil his promises. To prevent the commencement and increase of any embarrassment, he ought to yield to the demands of money-lenders, whatever they may be, if it is necessary to enable him to protect his indorsers. When the crisis is past, it may be well for those business men who have survived it, to consider whether a system of banking, which actually induces such rapid contractions of currency, and such sudden convulsions of the money market, which baffles the prudence and foresight of all who use credit in their business, is in fact what it is often declared to be, "the most perfect system of currency and banking in the world." Should they seriously doubt the merit of "the system," they may wish to encourage some change that will render it better and more useful. Should they seriously desire a more rational and a more permanently prosperous business, and a currency more uniform and more stable, they may be willing to take the risk of rendering it for a time less easy to borrow money.

Banks and bankers are convenient and useful, not only to merchants and traders, but to the public. In the minds of many, particularly in the New England

States, banks are so much associated with paper money, that it seems to them impossible that they should exist without it. The power to issue notes to be used for currency or money is not a necessary attribute of a bank; for banks exist in all commercial countries, and perform all their useful functions as well, and perhaps better, without the power to issue their notes for money, because their action is then more uniform. If the right to issue notes to circulate for currency were taken away from every bank in the United States, the banks would be continued wherever they were really useful to the public, and would carry on the business of *banking* for proper business purposes, and not as mere traders in circulation. The effect of restricting their issues of notes would be to diminish the profits of the banks by reducing the amount of their loans. The effect upon the currency would be, that the precious metals would supply the place of the bank-notes as they were withdrawn from circulation, and the currency would then afford a more permanent measure of value. The opportunities to loan money at exorbitant rates would not so constantly occur, but capitalists and the public would become accustomed to receive and to pay the lawful rates for the use of money, and would soon be well satisfied with the present legal rate of interest on loans and on their bank-stocks. We should then no longer hear of petitions for the repeal of the usury laws, which are now almost the only safeguard against the rapacity of money-lenders.

An excess of bank capital and of bank loans only stimulates trading and speculation. Such an excess is of no public benefit, though individuals may there-

by enrich themselves. The effect of too much bank capital upon the industry of the country is injurious, by encouraging the investment of money in temporary loans for purposes of speculation, instead of inducing permanent and productive investments, such as the improvement of lands, the building of ships, railroads, manufactories, and other objects, which give employment to the industry of the country, and are the foundations of all useful trade. The object of banks should be to facilitate, by temporary loans, the distribution among the consumers of the products of industry; but those products are the results of more permanent investments of capital.

Another bad effect of an excess of bank capital is its tendency to concentrate the business of the community in the hands of a few large houses, whose wealth and character give them influence in the control of the loans of the banks, enabling them to monopolize many branches of business through the amount of money which they can temporarily control. The advantage of the possession of great wealth, particularly when it is united with the possession of intelligence and a general and well-deserved reputation for integrity, will always be as great as should belong to any private individuals. Surely, to the same individuals should not be granted in addition the advantages derived from the control of the banks, and the funds supplied by the paper money that is used for the currency of the country.

Currency or money, when it consists of the precious metals, is one of the items of the property of a country. But it is not property or wealth when it consists only of *promises* to pay money, unless such prom-

ises are the substitute and representative of coin or bullion that is actually held in reserve for the payment of such promises. It is not true, when paper money is substituted for coined money, that the paper is so much additional capital to be invested for the benefit of domestic industry; but the reverse of it is true; for the only use that can be made of the coin is to send it abroad to pay for the products of foreign labor. It may increase, for a time, the amount of loans for purposes of speculation; but it will not increase the amount of capital that can be permanently invested for the benefit of industry.

With a paper currency, property may accumulate, but an accumulation of money is hardly possible. For bank-notes may be hoarded, or may be deposited in the banks; in the one case they would increase the circulation of the bank, and in the other case, the deposit of the bank; and in either case, the amount is loaned by the bank to be used by others. When deposits are demanded for any purpose by the owners, the bank must withdraw the amount from the use of those to whom they have loaned it. The advocates of paper money claim as its great advantage, that it leaves no money idle in the community; that there is no money that is not earning something, either for its owner, or for some one who knows better how to employ it. But more important questions are, the purpose for which the money is to be employed? and, is it true, to any great extent, that those who do not own money know better how to employ it than those who do own it? The owner, rather than allow it to remain for a long time idle and unproductive, will seek some useful and permanent mode of invest-

ing it. The temporary possessor of it by a loan from a bank may invest it in some speculation in stocks or in merchandise, which he foresees, or fancies, some one will need and be obliged to purchase of him at a higher price before he is required to pay back the loan. It is of no kind of importance or benefit to the public, whether the money during this time lays idle or not; but it is of importance and a great benefit to individuals and to the public, that when any important public improvement is to be made, there should be capital unemployed that can be usefully and profitably invested.

So far as paper money is only a substitute and representative of the precious metals, its circulation can neither be of benefit to those who issue it, nor to the public who circulate it; except that it may be sometimes convenient to use, from the fact that it is more portable and more easily counted. The profit on the issue of paper money is derived from the amount of the excess of it that can be circulated beyond the amount of coin that must be kept on hand to meet the demand for its redemption.

The object of laws to regulate banks which have the right to issue bills for currency, is, to establish a system that will diminish the dangers, and avoid the evil effects, of their imprudent or fraudulent management. Their paper, which circulates as money, is based on public confidence, and if that confidence should for any reason be impaired or withdrawn, there is great danger that the most prudently managed banks would be involved in the ruin, which would be certain to fall upon those which had been conducted in a fraudulent or unskilful manner. To

be convinced that there is danger of this, it is only necessary to look at the annual reports of the condition of the banks. According to the report for 1854, of the condition of the banks in Massachusetts, their debts, including circulation, deposits, and balances due to other banks, amounted to over fifty-one millions of dollars, payable on demand *in specie*, of which there was less than four millions in all the banks of the commonwealth.

If the public suffer by the insecurity of the bills in their possession because of bank failures, it is only on the amount of the bills which they happen to hold; but the inflations and contractions of the currency affect the whole property of the community. An inflation of the currency, and the consequent rise of prices, suddenly enriches those who hold large amounts of property; and on the other hand, a contraction of the currency, and the consequent fall in the value of property, often renders them bankrupt. Mr. Webster says, "Do these violent fluctuations of currency do good to him who depends upon his daily labor for his daily bread? They may gratify the greediness for sudden gain, or the rashness of sudden speculation, but they can bring nothing but injury and distress to the homes of patient industry and honest labor. Who are they that profit by this state of things? They are not the many, but the few; they are the speculators, brokers, dealers in money, and lenders of money at exorbitant interest." An increase of the amount of money in circulation, by the increase of prices which it produces, may stimulate production; and if it is an increase of *real money*, this effect may be of a permanent character, and advantageous to the community.

But if it is only an increase of paper money, its effects are usually sudden and rapid. Before any benefit can be derived from the enterprise which it has stimulated, a contraction of the currency too often occurs, entailing loss and perhaps bankruptcy on those who have been tempted into new adventures. Any benefit that may result from such a course of business is reaped by money-lenders.

Facility of establishing New Banks in Massachusetts, and the evil Effects produced by the large issues of their Notes.

When an application is made to the legislature for a new bank charter, it cannot be for the purpose of investing money that is lying idle, for such a state of things can hardly exist under the present system of currency and banking in the United States. There is always most demand for the creation of new banks when money is most plenty, because then prices are rising, and many are therefore disposed to increase their business, and for that purpose to increase their facilities for borrowing money. The premium at which bank-stock sells at such a time, is another inducement to subscribe for the stock of new banks.

In Massachusetts, it is usual for the legislative committee to whom an application for a new bank is referred, to ask for the subscription list for the capital stock. The chairman of the committee examines it with much gravity, and with as much intelligence as if he were trying to decipher the hieroglyphics on an Egyptian monument. The petition may be for a bank in Boston, and the chairman of the committee may

happen to be a politician from the interior of the State, specially selected for his peculiar fitness to preside over the committee, because entirely unacquainted with business men and with banking. His impartiality may therefore be taken for granted, and he should be presumed to have no prejudices or previously formed opinions on the subject that would prevent him from adopting such views as parties interested may wish him to sustain.

There is never any trouble in getting a complete subscription list for the stock of a new bank, as it is not necessary either that the parties who subscribe should take the stock, or that they should furnish any money to pay for their subscription if they do take it. If the petition for the charter is granted, before the new bank can be organized, money will probably have become scarce in consequence of the previous rise of prices. And the scarcity will be increased by withdrawing money from other uses, to pay in as capital for the new bank; that is to say, so far as any money is paid in for the new capital. Fortunately, there are *some* subscribers to almost every new bank who prefer to pay in the money for their subscriptions.

It is not *necessary* that any money should be paid by the subscribers of the capital stock of a new bank. Their subscriptions can be paid by checks drawn on the new bank, and the discounts, made on the same day for the parties who have drawn the checks, being placed to their credit will make the checks good. Or, the checks may be drawn on another bank, and the notes of the new bank paid out for the discounts made on the same day, being deposited at the other bank, will make those checks good. If the checks are sent to the

other bank on which they are drawn, and payment demanded at the counter, they must by law be paid in cash or in their notes.

The statement of the condition of a new bank established in this way, without the actual payment of any money by the subscribers of the capital stock, would show, at the close of business on the first day, that "*the capital*" had all been paid in according to law. It would also show a considerable amount on hand of "*the bills of other banks*" which had been received for checks drawn on other banks to pay for subscriptions to the capital. And these notes of other banks, being payable on demand in specie, can be called "specie funds." Besides, there would be a respectable "*loan*," amounting perhaps to one half more than the capital, consisting of the notes that have been discounted for the directors, the subscribers, and other friends of the new bank. Moreover, there would appear a large "*amount of deposits*," considering that the bank has been in operation only one day, consisting for the most part of the excess of the discounts that have been made beyond the amount paid for checks drawn to pay for subscriptions to the capital stock. The notes of the bank, paid out for checks drawn against deposits, will have made "*the circulation*" a fair one, and it will be daily increased by the efforts of the various friends of the new bank to get the notes into general circulation by paying them out in small sums, and in distant places. Some of them will be sent to Michigan and other distant States, where they will circulate for a time. But, in such cases, they are usually sent back again "to plague the inventors," just at the times when it is most inconvenient to the bank to see them

return. The shares of the capital stock of this new bank can also be used by the subscribers as security for loans of money from savings banks, trust companies, and other institutions, that never make loans without a pledge of stocks in addition to personal securities. Among the assets of savings banks, there are usually found a large amount of the stocks of new banks held as security for loans.

Thus, it *may be* that not one dollar of actual money has been paid into this new bank for its capital. All that is *necessary* to establish such a bank, is an act of incorporation. "There is no difficulty in setting a bank in operation with no capital. The character of such a bank rests entirely on the character and responsibility of the debtors to the bank. If managed with prudence and skill, no difficulty occurs. But such institutions, under the best management, are not the proper basis of a general circulating medium."[1]

The present system of currency, consisting of a constantly fluctuating amount of paper money, is an unjust one. The artificial wealth which it creates, is unfavorable to labor and to capital. It gives a fictitious and uncertain value to property of every kind, which enables the adroit and skilful speculator to take undue advantage of his neighbor. And it robs labor of a portion of its just earnings by increasing the cost of the necessaries of life, thereby depriving the laborer of many of those articles, which he would enjoy with a sounder currency. "It is a mistaken idea that there is any antagonism between labor and capital. They are mutually dependent on each other,

[1] Hon. Nathan Appleton.

and mutually helpers of each other; and he is no friend to the general interests of the State, or to any portion of the people, who would strive to foment a spirit of hostility between them."[1]

Capital supplies the raw materials, the tools, the shelter, and the food for labor, until its products are completed and disposed of, when it is paid back by their sale. Examine, for example, the investment of the capital of one of our great manufacturing corporations. It is invested in the buildings and machinery which are for the shelter and the tools of the persons who perform the labor, in the necessary stock of raw materials, and in the wages for their work until it is completed and sold. Those persons who perform the labor, agree to take, as wages or salaries, specified and fixed sums for their share of the products. Whatever there may be over, when the products are sold, goes to replace the capital employed, and for profit to the owners of it. If this is a fair statement of the arrangement between capital and labor, and if the arrangement is fairly carried out, the interests of both are identical. But if, after this arrangement is made, an inflation of the currency is produced by additional issues of paper money, by which the prices of all articles are enhanced, the share of the profits which goes to the owners of the capital will be greatly increased, while the value of that which those who perform the labor have agreed to take as wages or salaries will be greatly diminished by the increased cost of the various supplies needed for the support of their families.

---

[1] Gov. Clifford's Message, 1853.

The most simple way to deprive the mechanics and the laborers of their rightful share in the general prosperity of the country, would be to reduce their wages; and it would be the fairest, because it would be readily understood. But an increase of the amount of money in circulation, which will increase the prices of all kinds of commodities, is quite as effectual, and more easily accomplished, because it is not so quickly comprehended. What great difference can it make to the mechanics and laborers, whether the amount of their wages is reduced, or whether the cost is increased of the food, clothing, rent, and other necessary supplies for their support? It is said they are "*as well off*" when prices are advanced, because they get more for their labor. But that is not true. Commerce regulates, to some extent, the price of labor. The first maxim of trade is to buy where goods are cheapest. If the price of labor is advanced, the cost of production will be increased, and the merchant will then find it more profitable to import goods than to pay higher wages for labor to manufacture them at home. For that reason, and because the profits of manufacturing depend as well upon distant as upon local commerce, wages do not rise in proportion to other things when the currency is extended. Adam Smith has devoted many pages of his "Wealth of Nations," to an explanation of the causes why the wages of labor do not rise equally with other things, when a general rise of prices occurs. He takes it for granted that no one can honestly doubt the fact that wages do not rise equally with other things. The manufacturer, the trader, and the merchant increase their profits for a time by the high prices produced by an expansion of the currency; but the same

prices for labor will not supply the same quantities of those necessaries and conveniences, which the laboring classes have been accustomed to have. This produces discontent; and then commence those "strikes" among workmen, which always occur during seasons of speculation and high prices.

The capital in a country may be distributed in the possession of many persons. Much of it may be possessed by the laborers themselves, as it is in the United States. Or, it may be in large masses in the possession of a few individuals, as it is generally in Great Britain. In either case, the capital is necessary to the industry of the country, for it furnishes the necessary support of labor until its products are prepared for sale and ready for use. Active capital consists of many different kinds of property, and portions of it in the possession of individuals are constantly varying in form by exchanges, or sales and purchases. The possession of such capital is the possession of the tools and machines to employ, and of the means to support, for a given time, those who perform a certain quantity of labor.

All labor must derive its support from capital in the possession of the laborer or of his employer, until the labor is completed, and until the object of the labor is ready for sale. No income can be derived legitimately from capital, except by employing it directly or indirectly for the support of industry. Is it expedient, therefore, to sanction the use of an artificial money or capital, that will give its possessor the power to control the supplies necessary for the support of labor?

The bill of rights says, "no man, nor corporation, or association of men have any other title to obtain ad-

vantages, or particular and exclusive privileges distinct from the community, than what arises from the consideration of services rendered to the public." Banks now acquire, under their charters, the right to issue their promises to pay money on demand to be used as currency or money. This is a right, which is withheld from all other persons. What services have the banks rendered to the public to entitle them to the particular and exclusive privilege of furnishing the currency? What is it but a monopoly, to say to one set of citizens, You may issue promises to pay money on demand under certain restrictions, to be used as money by the community, and to refuse this right to issue such promises to another set of citizens, who ask for it on exactly the same conditions? If it is not the intention to establish bank monopolies, but to treat all the citizens of the commonwealth alike, why should not banks, and all other business corporations be, as far as it is possible, established under general laws, which should be free to all who choose to avail of their provisions, and to conform to their restrictions? There are now on the statute-book in Massachusetts, general laws for the establishment of banks, and of business corporations. If those laws are not perfect, render them so by additional legislation, and require new banks and new business corporations to be formed under them, instead of granting special acts; and amend the laws affecting the existing banks and corporations established by special acts, so that they may conform to the general laws for the establishment of similar corporations.

The amount of taxes paid by the banks is by some considered a fair remuneration to the State for the

privileges granted by their charters. That the tax on the banks is not excessive, is evident from the eagerness with which many of them have recently been asking to increase the amount of their taxes, by enlarging their capitals, and from the constant applications to the Legislature for new banks. The amount of their dividends proves that they can well afford to pay the bank tax. The wisdom of this mode of taxation may be doubted; it is somewhat analogous to the exploded systems of farming taxes,[1] and of selling monopolies; and it is an indirect mode of taxing the labor and enterprise of the country, rather than the property.

Laws providing for any changes that will improve the currency and affect property, should be prospective. Ample time ought to be afforded to make the necessary preparations, so that the public may suffer as little inconvenience as is possible. With regard to any changes affecting the currency, particular care should be taken to select the proper time. They should not be urged when the banks are pressed by an active demand for specie, to meet which all their resources may be required. This would temporarily increase the difficulty to the banks and the pressure on the trading portions of the community. Nor should it be attempted at the time when the banks, by increasing their loans and circulation, have commenced another inflation of the currency. Because the change to a decline of prices, and the scarcity of money which would follow, may at such a period be ascribed to the change of

---

[1] It is customary in some countries for the government to *farm* the revenues, — the taxes, imposts, or excise, — to individuals, generally rich bankers, who collect them, and pay to the government an amount agreed upon beforehand, or a percentage of the amount collected.

the laws. The best time to reinforce the currency, and to make any changes in the laws affecting it, with the view of rendering the currency more stable and uniform in value, will be, after the banks are relieved from a pressure consequent upon a previous inflation of the currency. Probably no better time will ever occur to commence it, and to improve and invigorate the currency, than during this present year of 1855. The severe pressure in the money market of the previous year has diminished the loans and circulation of the banks, has increased their amounts of specie, has reduced the foreign exchanges below the rates which render the export of specie profitable, and has checked the importations of the products of foreign labor. An improved currency would do much to obviate the complaints of the interference of foreign labor with our domestic industry, for it would strike at the root of the difficulty which causes those complaints.

In proportion to the population, the aggregate of property in the United States probably exceeds that of any other country, if in the estimate of property, the banks and stocks and government debts are omitted, which are only evidences of debt from one portion of the people to another, and therefore do not add to the wealth of the country. The property in our country is spread over a greater surface, than in Europe, being more subdivided, and in possession of greater numbers, instead of being concentrated in large masses in the possession of a few. Our commerce, both foreign and domestic, now exceeds that of any country in the world, except Great Britain. With the precious metals in large quantities from California, and from other quarters, which that commerce brings into the country,

and with a rapidly increasing population devoted to industrial and productive pursuits, the United States, if possessed of a currency of a substantial character, should become the actual, as they are the geographical centre of the monetary affairs of the civilized world. Now, their monetary affairs are controlled by the policy of the Bank of England, and the condition of the London money market. All that is needed to render the country as independent of Europe in its financial concerns, as it is in its political relations, is to have a larger amount of the wealth of the country invested in the precious metals to be used for currency instead of the paper money that is now substituted for them. The gold and silver of the country, which are now annually exported to be exchanged for the products of foreign labor, would then be retained in the country, and supply a substantial currency, to be used by our own people, in the conduct of the proper business of our own community.

The export of specie from the United States during the last four years has been one hundred and eighty-five millions of dollars. The estimate of the amount of bank-notes in circulation in November, 1854, was one hundred and seventy-one millions of dollars. The bank-notes are certainly *a cheap currency*, for it does not cost much to manufacture them. It is in consequence of their use, instead of coin, for money, that so much gold has been sent abroad, and the products of foreign labor brought back in exchange for it. If coin had been used instead of bank-notes during the last four years, a great part of the gold that was exported would have been retained in the country, and would be at this time so much addition to the substantial wealth of the country.

It may therefore be said that the use of the bank-notes, instead of coin, for money during those four years, has cost the community an amount in gold more than equal to all the bank-notes in circulation throughout the United States.

The States of Massachusetts, Connecticut, and Rhode Island are now the great manufacturers of banks and paper money. In proportion to population, the capital and circulation of the banks in each of these States, is more than double that of any other State in the Union. During the last war with Great Britain, when the New England States alone possessed a specie currency, they were the centre of the commerce, and, in a great measure, controlled the trade of the country; and when the United States possess a stable and substantial currency of the precious metals, in connection with their other great commercial advantages, they will become the commercial centre, and may control, in a great measure, the commerce of the world.

The national government has already done its part to effect the necessary reform of the currency. All that remains to be done is, that the State governments should follow the example, by enacting intelligent and judicious laws for the purpose of introducing gradually the change to a sounder condition of currency. Some of the States have already commenced it, but none have done less towards it than the New England States. The first step in this reform may be, to require all banks to be organized under a general banking law, which would take from them the unpopular stigma of monopolies, and would require the notes used for circulation to be obtained from State officers, and government stocks to be pledged for them, thereby giving to

the government of the State a proper security over the currency of circulation.

The issue of all bank-notes of a smaller denomination than ten dollars, should be prohibited. Gold and silver would be immediately substituted for them with great advantage to the public, and without inconvenience at this time, when large quantities of gold are sent abroad, because there is no use made of it at home. Having gone thus far, if it were found that the benefits of increased stability and uniformity in the currency were obtained, and that there existed a sufficient amount of money for the proper conduct of the business of the community, and increased facility in borrowing money at the legal rates of interest, and such would certainly be the result, it might be well then to consider, whether for remittances and for payments of large sums, checks and drafts could not be substituted without inconvenience, and perhaps with some benefit, for many of the purposes for which bank-notes of large denomination are now used. And, in fact, whether any paper money for general circulation, is beneficial to the public, or to anybody, except the individuals or corporations that issue it.

The effect of withdrawing from circulation the bank-notes of a denomination below ten dollars, would be to produce a temporary reduction of the amount of money in circulation. This would cause a corresponding decline in the price of merchandise. Such a decline of prices would diminish for some time the inducements to import foreign merchandise, and leave the precious metals which are now exported to pay for them, to supply the place of the small notes withdrawn from circulation. The decline of prices being

a general one, would tend to stimulate the domestic industry of the country by diminishing the cost of production; and the consumption of the products of domestic industry would be increased by the lower prices at which they could be afforded. There would still remain the annual supply of imported necessaries and luxuries, which are paid for by the exports of the surplus products of the country, — the cotton, tobacco, flour, and other articles. And the demand for these and other domestic products to export would be stimulated and increased by the necessity of exporting them to pay for the foreign inports, when the specie of the country could no longer be used for that purpose.

A considerable proportion of the wealth of the country, at any given period, consists of those commodities which are consumed by use, such as articles of food and clothing, of which by far the greater part, particularly such as are usually deemed necessaries of life, are the products of domestic industry. While those articles that are less necessary, and which are usually considered as luxuries, are imported from abroad. This is particularly true with regard to the United States, where the diversity of soil and climate, and the active industry of the people, supply most of the wants of the community. Low prices would not diminish the quantity of those common necessaries of life which are supplied by domestic industry, but, on the contrary, would tend to increase their supply by diminishing the cost of producing them. The low prices, caused by the use of the precious metals for currency, would reduce only the supply of imported luxuries, as the gold that is now exported to pay for them would be required to take the place of the paper

money withdrawn from circulation. That gold would thereby become a part of the permanent wealth of the country. It would be an addition to the wealth of the country that would contribute to the benefit of all classes of the community, and, most of all, to the benefit of those who live on wages and salaries.

To diminish for a few years the supply of imported luxuries, is, in truth, the only sacrifice required to secure to the country a permanent and substantial currency of real money, in place of the paper money that is now used. The benefits of it would extend to the whole public, whereas the paper money, which now constitutes almost our whole currency, in the New England States, benefits only the comparatively few who are connected with the banks that supply it, and operates as an evil and an injury to the community.

The currency of a country, when it consists of *real money*, operates as a just and natural regulator and controls the extent of business. If the country is prosperous, the currency expands, because the prosperity, being the result of the profitable employment of the people, increases the amount of money in circulation, and diffuses it among the industrious and the enterprising. The prices of commodities and the extent of business are always influenced by the amount of money in circulation; therefore, when the currency consists of real money, the increased quantity of money in circulation, and the rise of prices are indications of increased prosperity. Such an increase of money and of ability to purchase are not artificial. They cause prices to rise, and encourage and strengthen all branches of industry. If at any time that effect becomes excessive, the demand for specie to export, which it

produces, will gradually contract the currency by diminishing the amount of it, and thereby gradually reduce prices and business to just, natural, and proper limits.

The amount of *paper money* in circulation is not controlled by any general principles or laws. From its very nature it must be constantly fluctuating in amount, and the changes must be comparatively abrupt and excessive. The increase of it stimulates business, and produces sudden and artificial enhancement of prices; but the quantity of it is usually diminished even more suddenly and unexpectedly than it was increased, causing often bankruptcy and ruin to many.

It has been well remarked, that the measure of influence and of actual power is not so much to be reckoned by that which is seen and known to be exerted, as by what is supposed to be held in reserve. So the power of currency or money should be, under the control of good laws, not so much in the common and daily power of usefulness that is exerted, but in its actual reserves of power and resources to meet any emergencies. No machine or engine can always be kept in movement at the highest tension of all its faculties and powers. The unreasonable strain would break down the most powerful combinations of materials, if the exertion at all times was fixed at the highest possible capacity and speed. Yet such are precisely the conditions required by the admirers and advocates of our present banking system. It is the very quality for which they admire it. Our banking system is perfect, they say, because under it not one single dollar of coin or of credit can exist in the community that we cannot lay our hands upon and borrow at some rate or other; leaving no reserves of

currency for the unforeseen events or accidents of foreign or domestic commerce, — for the possible effects of short or overabundant harvests, — for the sudden breaking out of war, or the equally sudden conclusion of peace, — for the expansions and contractions of speculative business seasons, that must under any system occasionally recur, — for innumerable contingencies in all parts of the world, which may suddenly become known, and seriously operate upon the money and currency of all commercial nations.

The object of these pages is to protest against the doctrines and conclusions of those who proclaim our method of banking and currency to be the best in the world, to the end that the evils and disadvantages of the existing system may be examined and remedied. Perhaps in the present interval between the extravagant speculations of past years, and the projects of future adventures, it may happen that public attention will be attracted to the important questions that have been considered, and that grave discussion may be excited in respect to them, and some practical and useful results may be obtained.

If the writer of these few and imperfect pages shall have contributed facts, arguments, or opinions to aid in the establishment of a more complete and rational system of banking and currency, he will have accomplished his object. Such views as have been set forth are not uncommon among our merchants. It is to be hoped that they may be maintained and upheld by more eloquent and practised writers, though they can hardly obtain the support of any one more sincerely convinced of their importance and truth than their present advocate.